



Fiscal FOCUS

QUARTERLY

IN THIS ISSUE

Fiscal Smarts

...PAGE 2



IN THIS ISSUE

Focus On Revenue

...PAGE 8



IN THIS ISSUE

Focus On Spending

...PAGE 9



IN THIS ISSUE

Vital Statistics

...PAGE 16



State Government Assistance to Business

At first glance, it might appear that there is little relationship between government and business. After all, one of the most important functions of government is to secure the rights and freedoms of individual citizens. Governments are organized on a non-profit basis to provide services to the public such as education, police and fire protection, and roads and bridges. Businesses, however, are engaged in for-profit, private enterprise that involves the buying and selling of goods and services.

A closer look reveals that there is a significant link between government and business. Governments tax and regulate businesses, and businesses provide tax revenues to governments. This has often created an adversarial relationship. Governments seeking to increase taxes or impose new regulations have found businesses lined up in opposition.

COVER STORY continued, page 3



Dear Readers:

The tragedy that occurred on September 11 has been devastating for thousands of people who lost their loved ones. Beyond the immediate loss of life and property, we are beginning to see a further slowdown in the national and state economies. Sales are down in many sectors, and businesses are laying off workers.

It is uncertain how much assistance state governments will be able to provide under these circumstances because sales and income tax revenues are running lower than expected. However, state assistance to business is an important part of public policy, and requests for help may increase in the short term.

Illinois has a number of programs available to attract, retain and assist businesses in Illinois. The assistance is wide-ranging, but usually is in the form of tax incentives or breaks, financial help such as grants or loans, or technical help such as the provision of advice, counseling, data or publications. This issue of *Fiscal Focus* is intended to provide a broad overview of the types of assistance available. No attempt has been made to include all of the programs and services that could benefit businesses.

The Department of Commerce and Community Affairs (DCCA) currently offers over 40 programs and services to businesses. The assistance ranges from DCCA's First-Stop Business Information Center to grants for training workers to loans for creating jobs for low-income individuals. Procurement assistance to help businesses compete for state contracts is available from the Departments of Central Management Services and Transportation as well as from the Capital Development Board. Illinois' tax code contains incentives such as corporate income tax credits, sales tax exemptions, and investment tax credits.

As is our custom, I encourage you to answer the Fiscal Forum question for this month, and to continue to let us know what you think. Our web site is www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
Comptroller

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.

Editorial Staff: David Griffith and Ann Sundeen. Writers & Analysts: Bill Dracos, Kevin Fitzpatrick, Loren Iglarsh, Stephanie Blair, David Griffith, and Citseko Staples. Production: Rhonda Rathbone, Susan Hansen, Brenda Voyles, Frank Weitzel, Larry Hopkins and Mike Petropoulos.

Fiscal Focus is published by Comptroller Daniel W. Hynes, 201 State House, Springfield, Illinois 62706. Questions or comments may be directed to (217)782-6000.

Web Address: <http://www.ioc.state.il.us>

In compliance with the Americans with Disabilities Act, this document may be requested in alternative formats by contacting the Office of the Comptroller at (217)782-6000 or calling the IOC Telecommunications Device for the Deaf (TDD) number, (217)782-1308, or by visiting the Illinois state Capitol Building, 201 State House, Springfield, Illinois.

The Illinois Office of the Comptroller is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, marital status, national origin, ancestry, age or disability in employment or in the provision of any services, programs or activities.

Printed by Authority of the State of Illinois 10/15/01 - 3,500, Job 36160



Reproduction of articles from this issue or portions thereof is allowed with proper attribution to Fiscal Focus, Illinois Office of the Comptroller.

Fiscal Smarts

First Stop - Illinois' Business Information Center

The Department of Commerce and Community Affairs' (DCCA) Small Business Office, in accordance with the provisions of the Business Assistance and Regulatory Reform Act, oversees the First Stop Business Information Center. The Center is a statewide resource for new and existing business owners. First Stop's mission is to provide individuals and businesses with the information and assistance that will guide them through permitting, licensing and regulatory processes.

Through the toll-free small business helpline (800/252-2923) and their web site (www.commerce.state.il.us/doingbusiness/First_Stop/the_first.htm), First Stop assists individuals with learning about state requirements and services applicable to their businesses. Free business startup kits as well as several publications are offered that can help

new business owners get started the right way. Included is the Directory of Business Profiles, Requirements and Assistance Programs that outlines virtually every business license, permit, certificate and registration required by the State of Illinois as well as information about state programs available to help businesses. Other publications include the comprehensive Starting a Business in Illinois handbook that includes such items as a feasibility checklist, an outline of a typical business plan and information on regulations and issues facing new business ventures. First Stop also publishes detailed business and industry briefs on such businesses as restaurants, day care centers and convenience stores.

In calendar year 2000, total First Stop client activity was 14,981 with 7,588 business start-

FISCAL SMARTS continued, page 4

The Pursuit of Economic Development

The relationship between government and business has been slowly evolving over the years. States not only have realized the importance of new jobs and economic growth, but have also taken steps to actively pursue economic development as public policy. Reacting to the financial pinch brought on by the energy crunch, global competition, and high unemployment in the 1970s, state governments began to offer economic development incentives to attract and keep businesses and jobs. Before long, the states were competing against one another to attract businesses. Even local governments within states were competing against one another.

The competition reached such an extent that some authors titled it the second war between the states. Proponents continue to argue that economic development incentives encourage job creation, keep firms from moving, level competitive differences between the states, and reduce the tax burden on business. Opponents argue that incentives create windfalls for business, merely transfer jobs from one state to another, create inequities between firms within a state, and reduce funding available for education, transportation and other government services.

State governments have sided with the arguments made by proponents. While there were only five states with economic development agencies in 1959 and nineteen states with such agencies in 1963, by 1998, forty-two states had established agencies and programs to provide economic development incentives to business. While the promised number of jobs and benefits from these actions are mixed, one thing is certain: state costs for such competition soared.

State government officials are aware of the problem of high costs, but no single state seems to be in a position to stop using incentives. States are afraid to make a unilateral decision to curtail incentives because it might jeopardize the relocation of a large business or industry. A more

prudent approach to economic development is based on the realization that most new jobs come from small- or medium-sized businesses. This approach emphasizes that public policy should streamline the tax code and incentives to benefit all businesses rather than just a few large ones.

National Business Activity

No one knows precisely how many businesses there are in the United States. The number of firms has two main components, employer firms and self-employed persons. The U.S. Census Bureau reported 5.8 million nonfarm employer firms, and about 10 million self-employed persons in 2000. A more expansive definition uses the number of business tax returns. In 2000, the Internal revenue Service reported returns from 25.4 million nonfarm businesses. Over the past ten years, employer firms have grown at a rate of 1.5% annually, but the growth rate of self-employed persons has been flat.

Just as there is no precise number concerning the number of all businesses, there is no exact number concerning the number of small businesses either. There is no single definition of a small business. The U. S. Small Business Administration (SBA) defines a small business as a firm with less than 500 employees. The Census Bureau, however, uses definitions that relate to sales and those amounts differ by industry. For example, some independently owned agricultural enterprises are deemed to be small businesses if annual receipts are less than \$500,000, while housing construction firms are defined as small if annual receipts are less than \$27.5 million annually.

According to the SBA, small businesses represent over 99% of all employers. In

1999, small businesses continued to employ more workers than large companies. They employed 68.2 million people, or 58% of the private sector workforce. In fact, throughout the 1990s, small businesses represented about 75% of the growth in employment and 90% of the growth in new business locations.

In terms of the type of employment, service industries created 6.6 million new jobs between 1992 and 1997, a growth rate of 24.2%. Construction industries were second with a growth rate of 19.3% followed by retail trade at 15.0% and financial/real estate at 14.3%. Manufacturing industries grew at a 3.6% rate, while mining was down -4.2%. During that same time period, minority-owned businesses grew at a 30% rate, more than four times faster than the 7% growth rate for all firms.

Illinois Business Activity

The Illinois Gross State Product was \$417 billion in 1998, and in 1999, Illinois was the headquarters for 39 of the nation's largest companies, ranking third. Illinois ranks among leaders in production of products such as: construction machinery, farm equipment, cellular phones, radio and television sets, nuts and bolts, confectionery products, shortening and cooking oils, flour and other grain mill products.

In 2000 the SBA reported there were approximately 278,754 employer firms and 332,227 self-employed in Illinois. Using data collected on establishments by the Census Bureau, over 99% would be considered small (less than 500 employees). In terms of type, the largest group is retail trade, followed by professional/scientific services, other services, construction, and health care/social assistance. In

COVER STORY continued page 5

Employer Firms and Self-employed in Illinois					
	1996	1997	1998	1999	2000
Number of Employer Firms	266,358	270,471	275,207	277,313	278,754
Firm Births	28,064	28,009	28,882	28,222	28,875
Firm Banruptcies	1,806	1,788	1,474	1,394	1,270
Self-employed	374,000	383,000	323,000	346,000	332,227
Source: U.S. Small Business Administration, <i>Small Business Indicators for (Year)</i> .					

up kits issued. In 2000, 2,530 of First Stop cases were source of financing cases and 2,682 cases were for licensing and registration while 44 were for regulatory assistance, 139 for market research, 197 for government contracting and 57 were for international trade.

First Stop maintains working relationships with over 40 state agencies serving as an ombudsman to expedite solutions in disputes between small businesses and state agencies. The program also serves as a regulatory watchdog for Illinois businesses. The publication Regulatory Alert is faxed and e-mailed each week to hundreds of businesses to make them aware of newly proposed state regulations. First Stop also advocates for changes in regulations to make them less onerous to small businesses.

With a mission of providing customers accurate information in a timely and professional manner, DCCA employs customer service representatives and business and regulatory specialists to handle these cases. A survey of the program showed that 94% of customers believed First Stop saved them time and/or money and 98% were highly satisfied with the products and services provided. ■

First Stop Business Information Center Key Performance Indicators, 2000

Total First Stop Client Activity	14,981
Business Startup Kits Issued	7,588
Sources of Financing Cases	2,530
Licensing and Registration Cases	2,682
Regulatory Assistance Cases	44
Market Research Cases	139
Government Contracting Cases	197
International Trade Cases	57
General Business and Other Cases	1,627

Source: Department of Commerce and Community Affairs.

First Stop Products and Services

Business Specialists - DCCA's Business Specialists serve as ombudsmen for small businesses, working to find a solution that both the business and agency find mutually acceptable. The specialists handle the thousands of inquiries that come in via the toll-free business help line, e-mail, standard mail and walk-ins.

Toll-Free Call Intake Center - Three highly trained customer service representatives receive calls into First Stop via the toll-free number. The call center handles a high percentage of requests for basic information as well as mail fulfillment of the business startup kits. Requests for in-depth assistance, advocacy and research are seamlessly forwarded to the Business Specialists.

Hispanic Outreach - An outreach effort to educate prospective entrepreneurs in Illinois' growing Hispanic population. The bilingual customer service representative has translated the Child Care Start-up Profile into Spanish and is currently working on translating several other First Stop publications.

E-Commerce Conference - First Stop, along with Illinois Manufacturing Extension Center, sponsored the Building Your Business in a Fast Changing World E-Commerce conference at Southern Illinois University's Small Business Development Center. Participants were able to attend four breakout sessions throughout the day that were targeted to beginner and advanced levels.

E-Commerce Business Startup Profile - This booklet is a combined effort by the College of Business and Technology at Western Illinois University and DCCA's First Stop office. This publication is intended to give prospective business owners a resource to facilitate the startup process and to help existing business owners make decisions about expansion into the e-commerce arena.

Illinois Child Care Resource Guide - This guide is a four-part publication made up of the following:

- Illinois Child Care - A Guide for Family Providers
- Illinois Child Care - Developing Center-Based Programs
- Illinois Child Care - Options for Employers
- Illinois Child Care - Developing Community Programs

Business and Industry Data Center (BIDC) - Funded by First Stop, this integrated service provides the Small Business Development Center Network and small businesses with various market, industry, census and similar demographic data to help them make planning decisions.

Directory of Business Profiles, Requirements and Assistance Programs - This comprehensive database of more than 450 profiles of state business permits, licenses, certifications and assistance programs has been enhanced to include profiles of the top 100 most popular business startups.

Starting a Business in Illinois Handbook - This 42-page booklet, heralded by the business community as one of the most useful publications of its kind, features answers to the basic questions and issues facing new business ventures. Included is a business feasibility checklist, a business plan outline, listings of essential state, federal and local agencies and other useful information.

Step-by-Step Guide to Starting a Business - This abbreviated version of the handbook provides a more concise and colorful publication useful in mass marketing activities such as small business expositions, chambers of commerce throughout the state, library reference sections and similar venues.

Restaurant Startup Profile - This publication is a resource to facilitate the startup process for a restaurant and to help existing restaurant owners to make decisions about expansion.

Marketing and Promotion - Includes activities such as direct mailed promotional and informational material, cosponsorship, participation in and/or attendance at conferences, and numerous public-speaking engagements with various business groups, chambers, libraries and other intermediary organizations.

Regulatory Flexibility Program - This program reviews proposed state rules and publishes, for business trade associations and specific businesses, a weekly Regulatory and Information Alert that summarizes the rules that will have an impact on business.

Source: Department of Commerce and Community Affairs.

terms of employees, the largest group is manufacturing followed by retail trade and health care/social assistance.

Illinois Policy and Programs

Illinois has not been immune from the state competition to attract large firms. The most recent example is the \$29.1 million state incentive package offered to the Boeing Company to relocate its world headquarters to Chicago. While such efforts attract headlines, there are many other programs that are available for small and medium sized businesses.

The assistance available to businesses is scattered throughout different state agencies. Most of the major programs and services are available through the Department of Commerce and Community Affairs (DCCA). Created by the merger of the Department of Business and Economic Development and the Department of Local Government Affairs, DCCA currently offers over 40 programs and services to businesses. However, tax incentives are under the purview of the Department of Revenue, procurement assistance is available through the Department of Central Management Services, the Department of Transportation, and the Capital Development Board, and some financial assistance is offered by the Illinois Finance Development Authority (IFDA) and the State Treasurer.

Tax Incentives

One major category of direct state assistance to business includes various kinds of tax incentives. These incentives usually

take the form of corporate income tax credits or deductions, sales tax exemptions, or utility tax exemptions. For example, the High Impact Business Program provides an investment tax credit, a state

Growing Economy (EDGE) program provides corporate income tax credits to qualifying businesses that create new jobs and make capital investments. To be eligible for EDGE, businesses must invest a minimum of \$5 million in capital investments and create a minimum of 25 new jobs.

Enterprise Zones are an important economic development tool in Illinois. State and local incentives are available to businesses that locate or expand within a designated zone. State incentives include: 1) a state sales tax exemption on building materials used in the zone; 2) a state sales tax exemption on purchases of tangible property to be used in manufacturing or the operation of a pollution control facility; 3) a state utility tax exemption on gas, electricity and the telecommunications excise tax; 4) a state investment tax credit of 0.5 percent; 5) an income tax deduction on dividend income from corporations doing substantially all their business in the zone; 6) a jobs tax credit of \$500 per eligible employee hired to work; 7) an interest deduction for financial institutions for the interest received on loans for development within a zone; and 8) a contribution deduction from taxable income at double the value of a cash or in-kind contribution to an approved project of a designated organization. [For a more detailed description and analysis of enterprise zones, see the FY2000 *State of Illinois Tax Expenditure Report*.]

	Establishments	Employees
Retail Trade	44,017	635,558
Professional/Scientific	34,856	337,445
Other Services	32,305	251,245
Construction	29,509	244,296
Health Care/Social Assistance	26,265	622,309
Accommodation/Food Services	23,579	405,927
Wholesale Trade	21,764	338,196
Finance/Insurance	21,142	346,596
Manufacturing	17,653	861,541
Admin/Support/Remediation	15,844	441,437
Real Estate/Leasing	11,480	81,902
Transportation/Warehousing	9,091	201,899
Information	5,452	132,972
Arts/Entertainment/Recreation	3,979	65,825
Educational Services	2,805	115,128
Unclassified	2,786	2,737
Management of Companies	2,265	167,463
Auxillaries	676	44,266
Mining	605	9,465
Utilities	442	33,184
Forestry/Agriculture	384	3,284
TOTAL	306,899	5,342,675

Source: U.S. Census Bureau, *County Business Patterns, 1999*.

sales tax exemption on building materials, an exemption for the state tax on utilities, and an expanded state sales tax exemption on purchases of personal property used in manufacturing or assembling. This assistance is not automatic. To be eligible, businesses must make a minimum investment of \$12 million at a designated loca-

	Total	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1,000 Up
Establishments	306.9	165.2	57.5	38.4	27.2	9.9	6.2	1.6	0.6	0.3
Employees	5,342.7	277.7	380.9	518.9	826.3	681.1	939.9	525.1	432.4	760.3
Percent Less Than 500										
					Establishments	99.69%				
					Employees	77.68%				

Source: U.S. Census Bureau, *County Business Patterns: Illinois, 1999*.

tion in Illinois that causes the creation of 500 full-time equivalent jobs, or make a minimum eligible investment of \$30 million that causes the retention of 1,500 full-time equivalent jobs. (See *Focus on Revenue*).

The Illinois Economic Development for a

Businesses may also benefit indirectly from tax incentives provided to other recipients such as local governments. For example, Illinois law allows local governments to establish Tax Increment Financing (TIF) districts. The Department of Revenue distributes state sales tax collections to municipalities that have tax increment financing (TIF) districts for either state sales tax, state utility tax, or both that produced an incremental growth in retail sales, or gas and electrici-

COVER STORY continued page 10

HOW Illinois Stacks Up

Illinois - 13th on Small Business Index

Since small business represents a vast majority, approximately 99%, of businesses in Illinois and the United States, it is important to review governmental policies that affect small business. The Small Business Survival Committee has developed an index that ties together 17 major government-imposed or government-related costs that impact small business entrepreneurs across a broad spectrum of industries and types of businesses.

The seventeen measures that are added to the index include: personal income tax rate, capital gains tax rate, corporate income tax rate, state and local property tax ratio, state and local sales tax ratio, death taxes, unemployment tax rate, health insurance tax rate, electricity costs, worker's compensation costs, total crime rate, right to work status, number of state and local government bureaucrats, tax limitation states, internet tax, gas tax and state minimum wage. Under the Small Business Survival Index, the

lower the index number, the lighter the governmental burdens, and the better the environment for small business.

The top ten states that have the lowest index number and would be considered the most entrepreneur friendly are: Nevada, South Dakota, Washington, Wyoming, Florida, Texas, New Hampshire, Alabama, Mississippi, and Tennessee. Illinois placed 13th with a score of 40.290. The ten highest scores indicating the least friendly to small business went to Rhode Island, Hawaii, Maine, Kansas, Minnesota, New Mexico, California, New York, Vermont, and West Virginia.

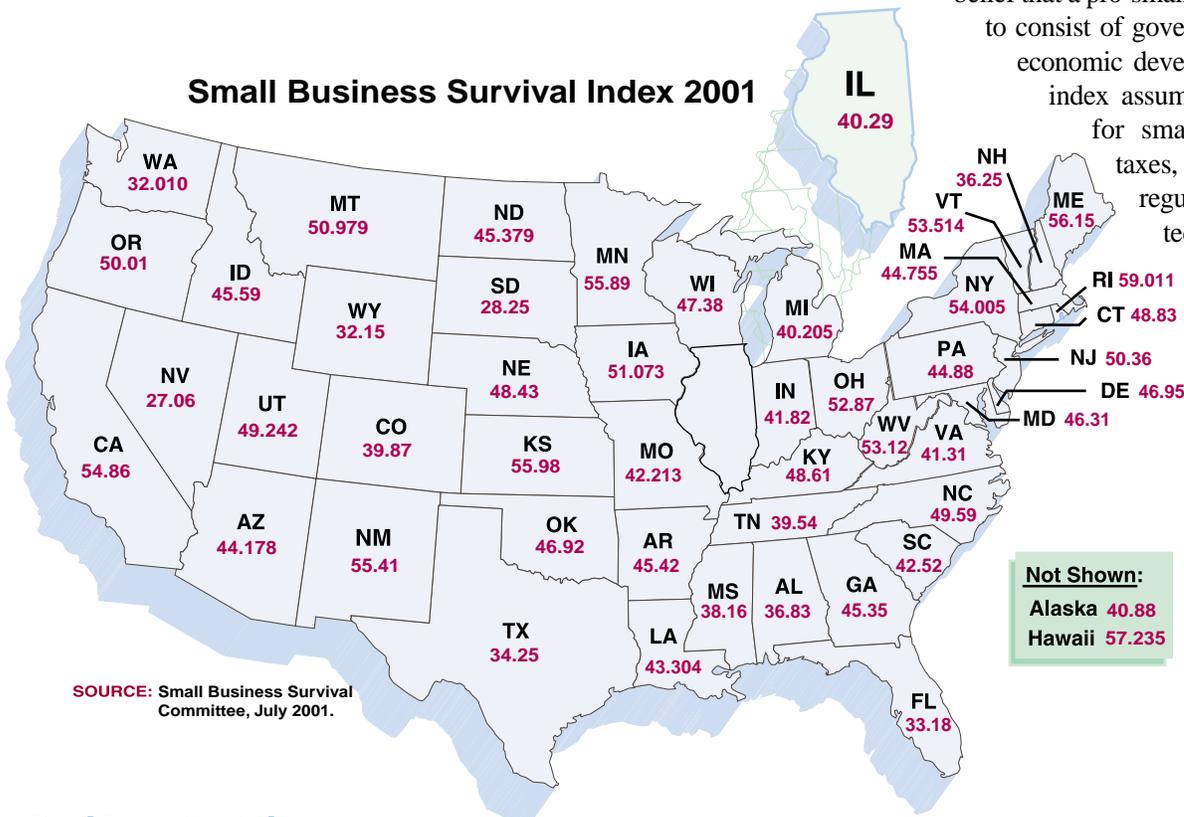
A small business is defined by the Small Business Administration as an independently owned and operated firm of 500 employees or less. The importance of small business is shown by the fact that they :

U.S. Small Businesses (less than 500 employees)

- Represent over 99% of all employers
- Employ 52% of the private-sector workers
- Employ 51% of the workers on public assistance
- Employ 38% of the workers in high-tech occupations
- Provide about 75% of the net new jobs
- Provide 51% of the private-sector output
- Represent 96% of all exporters of goods
- Obtain 28% of federal prime and subcontract dollars
- Are 53% home-based and 3% franchises

Source: U.S. Small Business Administration, Office of Advocacy.

Small Business Survival Index 2001



SOURCE: Small Business Survival Committee, July 2001.

The Small Business Survival Index is based on the belief that a pro-small business policy does not have to consist of government loans or grants or any economic development scheme. Rather, the index assumes that the best environment for small business consists of low taxes, limited government, restrained regulation, and government protection of life and property. ■

CEMETERY

Care Corner

Reporting Compliance Increases

New procedures instituted by the Cemetery Care and Burial Trust Department within the Comptroller's Office have dramatically increased the compliance level of on-time financial reporting by the state's roughly 2,000 licensed funeral homes, cemeteries and

percent are currently compliant. The increase in compliance has occurred because the Comptroller's Office, during the last year, has increased its communication with all licensees and has developed a protocol that includes regular phone contact, periodic and regular correspondence,

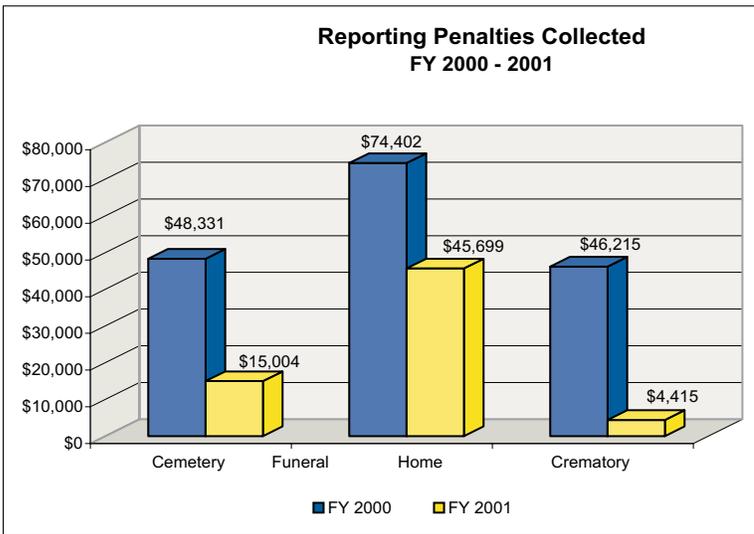
and follow-ups with collection agencies when appropriate. These methods were not extensively used in previous years.

Once a funeral home, cemetery or pre-need contractor files a report with the Comptroller, it is used as the basis for audits of those businesses.

that consumers are being protected. In this context, consumers means people who have purchased pre-need contracts and people who rightly expect perpetual care of the cemeteries in which their loved ones are buried. If problems are found in the course of an audit, the cemetery or funeral home operator or pre-need contractor is required to put their financial house in order. Most commonly this is accomplished by fully funding trust funds that have not been so funded.

Penalties

A comparison of late fees collected in fiscal years 2000 and 2001 reveals the extent to which reporting compliance has improved. In fiscal year 2001, the Comptroller's Office collected \$15,004 in late fees from cemetery operators, compared to \$48,331 in fiscal year 2000. Among funeral home operators, late fees collected fell from \$74,402 in fiscal year 2000 to \$45,699 last fiscal year. Late fees



pre-need contractors and regulated crematories.

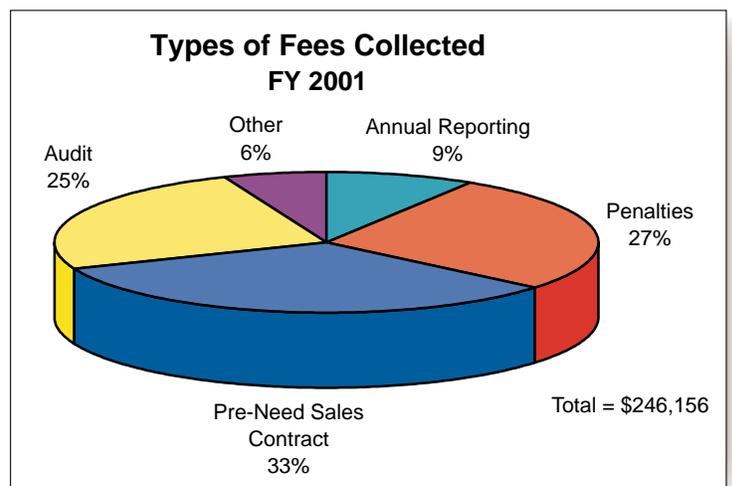
State law requires those operators and contractors to file a detailed financial report with the Comptroller at the end of their fiscal year. If the reports are not filed on time, a penalty of \$5 is charged for every day the report is late. In fiscal year 2001, \$70,358 in penalties were assessed compared to \$169,193 in late fees in the previous fiscal year. The 60% decline in late filing penalties represents an equivalent increase in on-time reporting compliance.

Of those businesses that are statutorily required to file with our office, roughly 95

State law mandates each cemetery with more than \$250,000 in trust funds to be audited every year, while every cemetery must be audited at least once every five years. Periodic audits of funeral homes and licensees are conducted if consumers file credible complaints against them.

The purpose of the audits is to provide assurance to the public

CEMETERHY CARE CORNER continued page 15





Illinois Tax Incentives for Business

The Illinois tax code attempts to strengthen the Illinois business climate by providing a variety of special tax incentives for businesses. Incentives can be divided between those that reduce the cost for desired purchases (including equipment, training and research) for any company that operates in Illinois and those that provide special benefits to companies that either locate in an area of special economic need or are considered to have a particularly large positive impact on the state economy. These tax expenditures had a combined impact of \$329 million in fiscal year 2000.

These incentives reflect the variety of approaches taken by policy makers to modify our tax system to expand economic activity. The largest type of tax expenditure for business is the machinery exemptions from the state sales taxes that totaled \$154 million in fiscal year 2000. These exemptions are mainly to the benefit of manufacturing businesses. It might be argued that they merely prevent double taxation of equipment purchases since the cost of equipment is built into the price of the taxable goods built with the equipment. The manufacturing equipment exemption is supplemented by the manufacturer's purchase credit which gives purchasers

of manufacturing equipment an additional credit that can be used for the purchase of supplementary manufacturing equipment or materials.

An additional incentive for equipment purchasers is the Illinois investment tax credit that exclusively impacts local government revenues. The investment tax credit is applied against the personal property replacement income tax that is distributed to local governments. This tax expenditure includes a base 0.5% credit for buying equipment used in retailing, manufacturing, and mining. An additional 0.5% credit is allowed if the company's Illinois employment has increased by 1%. The cost to local governments for this tax expenditure for the 1998 tax year was \$35 million.

Additional tax incentives are provided for selected training and research and development expenses. Training incentives

(\$18 million in fiscal year 2000) are primarily a 1.6% income tax credit for educational or vocational training expenses. The research and development credits (\$29 million in fiscal year 2000) include a 6.5% credit for qualifying costs of research and development activities in Illinois and a 20% credit on amounts contributed to the Illinois Center for Research on Sulfur in Coal.

In addition to these incentives available to employers statewide, further incentives are available for companies that choose to invest in enterprise zones. These include investment and dividend credits, sales tax exemptions on the cost of building materials and other designated materials within enterprise zones, and exemptions on utility taxes within the zones. The cost of these incentives was \$91 million in fiscal year 2000.

Finally, targeted incentives provide tax relief to designated projects thought to have an unusually large impact on the Illinois economy. High impact businesses either make a minimum investment of \$12 million in Illinois creating 500 jobs or invest at least \$30 million to retain 1,500 jobs in Illinois. Effective July 1, 2001, Illinois businesses that encourage the establishment of new coal-powered electric generation facilities and certain related industries that would also encourage the creation of new jobs are eligible for the high impact business incentives. High impact businesses are eligible for investment tax credits, a state sales tax exemption on building materials, and an exemp-

FOCUS ON REVENUE continued, page 15

Illinois Business Tax Incentives - Fiscal Year 2000 (Thousands of Dollars)		
<u>Tax</u>	<u>Incentive</u>	
Sales Taxes	Machinery and Equipment Exemptions ¹	\$154,280
Sales Taxes	Manufacturer's Purchase Credit	18,000
Corporate Income Tax	Training Expense Credits	17,785
Corporate Income Tax	Research and Development Credit	28,550
Various Taxes	Enterprise Zones ²	90,595
Electricity Revenue Tax	Electricity from Solid Waste Energy Facility Credit	19,729
	Total	\$328,939

¹ Includes manufacturing and assembling, graphic arts, and coal, oil and distillation machinery.
² Includes tax incentives for enterprise zones, foreign trade zones, and high impact businesses.

Source: Comptroller's Office, *Tax Expenditure Report, Fiscal Year 2000*.



Illinois Development Finance Authority

The Illinois Development Finance Authority (IDFA) was created by legislation in 1983. The legislation combined the operations of two other authorities, the Illinois Environmental Facilities Financing Authority and the Illinois Industrial Development Authority, to form IDFA. As a State authorized Authority, IDFA is principally engaged in issuing taxable and tax-exempt bonds, making loans, and investing capital for businesses, non-profit corporations, and local governments. A self-funded agency, IDFA receives no funding from the State and the State bears no liability for the debt IDFA issues or incurs. Operating revenue for the agency is generated by fees, interest income, and investment income.

IDFA's goal is to promote economic development in the state by providing flexible and low cost financing to businesses, municipalities, and other organizations that create jobs and improve the quality of life in Illinois. While the agency offers more than 15 financial products that assist businesses, schools, municipalities, and non-profits, IDFA has three basic financial products: bonds, loans, and venture capital.

Just over 10% of the bond financing provided by IDFA went to for-profit businesses, while almost 90% went to support not-for-profit organizations, local governments, and for housing. Industrial Revenue Bonds are tax-exempt bonds issued for manufacturing companies to finance the acquisition of fixed assets such as land, facility construction or renovation, and new machinery and equipment. In fiscal year 2000, 15 companies received financing of \$53 million. The amount

companies received ranged from \$1.0 million to \$6.3 million. Environmental Revenue Bonds are issued on behalf of solid waste disposal and other companies that provide services to the general public. They are also tax-exempt bonds that can be used for the purchase of land, facilities, machinery and equipment. The \$51 million issued in fiscal year 2000 went to one company.

IDFA has four different types of loan financing available under its business loan program. The agency assists banks in lending to small and mid-sized businesses that create or retain jobs by purchasing loan participations.

Participation loans are so named because they are originated by the agency in participation with a bank loan for a qualified Illinois enterprise. IDFA's share is limited to the lesser of 50% of project financing or \$300,000. These loans may be used to finance the purchase of land or buildings, construction or reno-

vation of buildings, and acquisition of machinery and equipment. Seven firms used participation loans in fiscal year 2000 totaling \$1.6 million. The other three loan programs are the rural development loan program, the Title IX revolving loan program, and the microloan program. The first program helps businesses in rural communities with populations of less than 25,000 finance fixed asset projects. The second program provides low-cost supplemental financing to small and medium-sized manufacturing concerns located in areas declared eligible by the Economic Development Administration for Title IX assistance. Microloans are provided to small business owners for start-up or expansion purposes and are for \$25,000 or less.

The venture capital program provides start-up and seed-stage equity financing to small high technology companies in the state. The objective is to assist technology firms access the capital they need to grow and create jobs. Investments typically range

Illinois Development Finance Authority Financing by Program

	Fiscal Year 2000
Bonds	
Not-For-Profit	\$ 435,095,000
Industrial Revenue	53,044,990
Local Government	226,449,525
Housing	235,440,000
Environmental	51,100,000
Total, Bonds	\$ 1,001,129,515
Loans	
Participation	1,628,832
Venture Capital	
	1,150,000
TOTAL	\$ 1,003,908,347

Source: Illinois Development Finance Authority.

from \$150,000 to \$400,000. All proceeds from the program are used to provide financing to additional qualified firms. In fiscal year 2000, almost \$1.2 million in financing was used by six businesses. Since its inception in 1996, the program

FOCUS ON SPENDING continued, page 15

ty consumption. Municipalities can make infrastructure improvements in the districts and provide incentives to help businesses expand or to attract new businesses.

Financial Assistance

A second type of direct assistance the state provides to businesses includes grants or loans. One example is the Large Business Development Program (LBDP) that provides funding to encourage out-of-state companies to locate in Illinois, and in-state companies to undertake job expansion or retention projects. Funds may be used for purchasing land and buildings, construction or renovation of fixed assets, purchase of machinery and equipment.

DCCA provides grant funds to businesses under the Illinois Recycling Grants Program for the establishment of new recycling programs or expansion of existing programs. The Recycling Industry Modernization Program provides funds for modernization assessments and implementation projects, and the Recycling Market Development Program offers grants to promote the manufacture, marketing and procurement of products containing recycled materials.

DCCA also administers the Industrial Training Program (ITP) that helps Illinois businesses train new workers and upgrade the skills of their existing workplace. ITP grants may be awarded to individual companies as well as to intermediary organizations offering training to meet the common training needs of multiple companies. There are two ways Illinois employers can access state training funds available through ITP. Large or medium-sized employers may apply individually for grant funds to assist with training their employees. Or small to medium-sized companies with common employee training needs can join together and apply for funds in a multi-company training project.

The Prairie State 2000 Authority also

administers training grants. The Employer Training Assistance Program (ETAP) provides financial assistance to Illinois manufacturing companies that retrain their existing employees in new technologies or improve their current quality or productivity systems in order to remain competitive. Retraining funding priority is given to small to medium-sized “primary” businesses. Financial assistance is provided to companies through a grant that may cover up to 50% of training costs up to a maximum of \$1,500 per person.

The Department of Agriculture administers a grant program, but one that is limit-

broadly-defined objectives: economic development through job creation; improvement of public infrastructure and elimination of conditions detrimental to health, safety or public welfare; and conservation and rehabilitation of housing resources for middle- and low-income or disadvantaged persons. Although local governments are the grant recipients, businesses can benefit from the program.

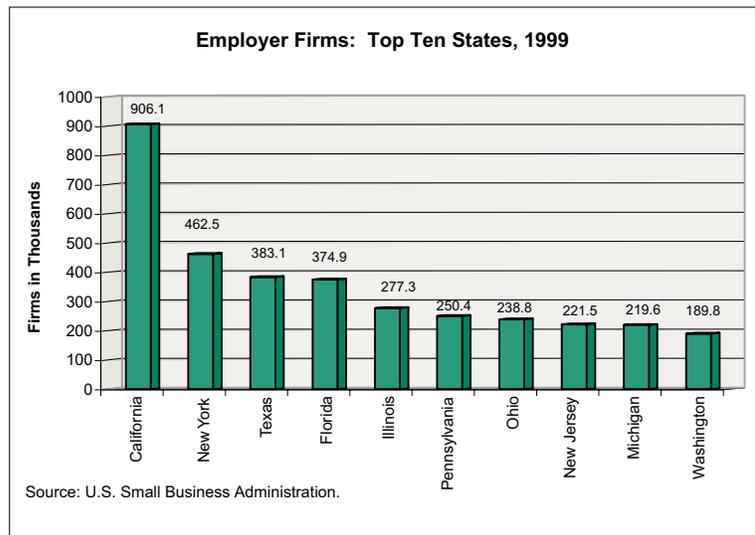
Loans

Loans to businesses are more prevalent than grants. The U.S. Small Business Administration (SBA) administers the majority of loan programs available. However, the state also offers, or participates in, loan programs to benefit businesses. The primary Illinois agencies involved with loans are the Department of Commerce and Community Affairs and the Development Finance Authority (see *Focus on Spending*).

DCCA offers the Community Services Block Grant (CSBG) Loan Program that provides long-

term, fixed-rate financing to new or expanding businesses that create jobs and employment opportunities for low-income individuals. The program links federal, state and private financing by using CSBG funds at low interest rates in combination with bank funds and equity.

Under the Participation Loan Program, DCCA works with banks and other conventional lenders to provide financial assistance to small businesses that will employ Illinois workers. The state can participate in loans up to 25 percent of the total amount of a project, but not less than \$10,000 or more than \$750,000 in size. The Minority, Women and Disability Participation Loan Program, like the Participation Loan Program, allows for state participation in loans for said minority businesses, except that participation



ed to agribusiness. AgriFIRST grants provide up to 75% of the cost (not to exceed a maximum of \$25,000) for technical assistance to develop projects to enhance the value of agricultural products or expand agribusiness in Illinois. AgriFIRST also will provide up to 50% of the cost of undertaking feasibility studies, competitive assessments, consulting or productivity services that the Department determines may result in the enhancement of value-added agricultural products

Businesses may also benefit indirectly from grants the state provides to other recipients. For example, the Community Development Assistance Program (CDAP) provides grants to local governments with populations under 50,000 for public infrastructure improvements or loans. The CDAP program has three

may not exceed 50 percent of the total project, subject to a maximum of \$50,000.

The Illinois Capital Access Program (CAP) is designed to encourage financial institutions to make loans to small and new businesses that do not qualify under conventional lending policies. CAP is a form of loan portfolio insurance that provides additional reserve coverage to the lender on loan defaults. By participating in CAP, lenders have available a proven financing mechanism to meet the needs of both financial institutions and Illinois small businesses.

The Illinois Technology Enterprise Development and Investment Program, in cooperation with private investment companies, private investors or conventional lending institutions, provides investments, loans, or qualified security investments to or on behalf of young or growing businesses. Investors also assume a portion of the investment loan or financing for a business project. New or emerging businesses are also eligible through financial intermediaries as they commercialize advanced technology projects.

Like grants, loans may also be available indirectly to help businesses. The Affordable Financing of Public Infrastructure Program helps local governments finance public infrastructure needed to support economic and community development. This program is not intended to duplicate or replace existing financing options. Rather this program has the objective of providing a remedy when the local project is unable to fully access, afford or completely satisfy existing infrastructure financing programs. The program can make funding available to a community to finance engineering or feasibility studies necessary to access funds available under other financing programs. Program funds may be used for acquisition, construction and improvements of local public facilities and sites and associated equipment.

The Business Development Public Infrastructure Program assists local governments finance public infrastructure needed to support economic development and private sector job creation and reten-

tion. Low-interest financing is available only for infrastructure projects that lead directly to private sector expansion or retention activities. General infrastructure construction and renovation activities (those which lead only indirectly to job creation and retention) are not eligible for consideration. Administered by the DCCA, program funds may be used for a wide variety of public infrastructure improvements needed to induce job creation and retention. These include local roads and streets, access roads, bridges, sidewalks, waste disposal systems, water and sewer line extensions, water distribution and purification facilities, sewage treatment facilities, rail and air or water port improvements, gas and electric utility

extensions, public transit systems, and the development and improvement of publicly owned industrial and commercial sites.

Other Financial Assistance

The State Treasurer's Economic Program (STEP) provides Illinois companies with access to affordable capital to expand their operations and retain or create jobs in the state. STEP was created to encourage and promote economic development and expansion of businesses in Illinois. For each permanent full-time job that is created or retained, the Treasurer can deposit up to \$25,000 at below market rates in the borrower's financial institution. That

COVER STORY continued page 12

State Assistance to Businesses (Examples of Programs) *

Tax Incentives

- Economic Development for a Growing Economy (EDGE)
- High Impact Business Program
- Enterprise Zones
- Tax Increment Financing Districts (TIF)

Financial Assistance

- Large Business Development Program (LBDP)
- Recycling Industry Modernization Program
- Recycling Market Development Program
- Industrial Training Program (ITP)
- Employer Training Assistance Program (ETAP)
- Community Development Assistance Program (CDAP)
- Community Services Block Grant Loan Program
- Participation Loan Program
- Minority, Women and Disability Participation Loan Program
- Illinois Capital Access Program (CAP)
- Illinois Technology Enterprise Development and Investment Program
- Affordable Financing of Public Infrastructure Program
- Business Development Public Infrastructure Program
- State Treasurer's Economic Program (STEP)
- Industrial Revenue Bonds
- Technology Development Bridge

Technical Assistance

- First-Stop Business Information Center
- Illinois Small Business Development Center Network
- Illinois Business and Industry Data Center (BIDC)
- Industry Development Specialists
- Community Profiles
- On-site Safety and Health Consultation Program
- Small Business Regulatory Flexibility Program
- Illinois Small Business Environmental Assistance Program
- Focused Industrial Retention Support Team
- Illinois Technology Enterprise Centers Program (ITECs)
- Small Business Set-aside Program
- Illinois Business Enterprise Program for Minorities, Females and Persons with Disabilities
- Procurement Bulletins
- Export Assistance and Counseling

* This list is not intended to show all of the state assistance available to businesses in Illinois. Rather, it includes examples of the types of assistance available.

institution will then lend the money at below prevailing interest rates to the borrower. The terms of the loan range from 1 to 5 years.

The Illinois Development Finance Authority (IDFA) issues tax-exempt Industrial Revenue Bonds on behalf of manufacturing companies to finance the acquisition of fixed assets such as land, buildings and equipment. Bond proceeds also may be used for either new construction or renovation. Because of significant up-front costs of issuance, Industrial Revenue Bond issues of less than \$1.5 million generally are not cost effective. Smaller fixed-asset projects may be eligible for financing through other IDFA loan programs. (See Focus on Spending).

The IDFA also administers the Technology Development Bridge (TDB) program that provides “seed-stage” equity financing to small high technology companies in the State of Illinois. The TDB is an innovative partnership between the Illinois Coalition and the Illinois Development Finance Authority (IDFA). The objective of the fund is to help technology firms access capital they need to grow and create jobs.

Technical Assistance

A third type or category of direct assistance the state provides businesses is the provision of technical assistance and data. There are numerous programs of this type. Perhaps the most noteworthy is DCCA’s First-Stop Business Information Center of Illinois that provides individuals and businesses with access to information and referral assistance to guide them through the permitting, licensing and regulatory processes. First-Stop also can link them to other available resources that can help them comply with government regulations and enhance their competitiveness. (See *Fiscal Smarts*).

In addition, the Illinois Small Business Development Center Network with 39 development centers provides prospective and existing business owners with a variety of business resource programs.

Centers are located throughout the state and include 1) Small Business Development Centers that provide businesses with management, marketing and financial counseling; 2) Procurement Technical Assistance Centers that assist existing business owners in doing business with the federal, state, and local governments; and 3) Small Business Technology Resources Centers that provide counseling, training, and technical assistance to technology-oriented entrepreneurs to enhance their opportunities to compete for federal research and development awards.

The Illinois Business and Industry Data Center (BIDC), a network of 28 local and regional affiliates, works to help entrepreneurs and small businesses get easy access to statistical data. Local affiliates deal directly with small businesses and other end users of data, while regional affiliates collect and disseminate information to both end users and local affiliates. Regional affiliates also prepare quarterly regional analyses for statewide distribution.

Industry development specialists are available at DCCA to provide business development assistance to companies wishing to locate or expand in Illinois. A related data service entitled Community Profiles details information on businesses and industries, health care facilities, airports, utilities, schools and other amenities that are available throughout Illinois.

Safety and health consultations are provided at no cost to Illinois businesses under the On-Site Safety and Health Consultation Program. This program is designed to help prevent costly occupational injuries and illnesses. Consultants help firms identify hazards and establish effective safety and health management programs, including information on corrective actions that may be utilized. In addition, the program guides companies toward compliance with OSHA regulations.

The Small Business Regulatory Flexibility Program of DCCA performs impact analy-

ses of proposed rules and regulations affecting the small business community and suggests ways to make the rules more flexible, or cost effective for small businesses. In some instances, small businesses may be exempted completely from compliance. The program publishes Regulatory Alert, a publication designed to inform and involve the public regarding changes taking place in licensing, registration and permitting.

The Illinois Small Business Environmental Assistance Program offers services to help small businesses understand regulatory requirements under the clean Air Act Amendments of 1990. A hotline is available to answer environmental compliance questions. The program also operates a clearinghouse of more than 300 environmental publications, including rules, fact sheets, guides, case studies, a listing of Illinois environmental service companies and more. In addition, energy conservation and energy efficiency information and technical assistance is available through DCCA’s Illinois Small Business Energy Program.

DCCA has two specific programs to help minority businesses. Both the Office of Women’s Business Development and the Office of Minority Business Development work with individual companies and professional associations to find answers to a range of questions that arise from business ownership.

Illinois’ Focused Industrial Retention Support Team brings together the resources of DCCA and private groups such as the Argonne National Laboratory, NORBIC (North Business and Industrial Council), ComEd, and People’s Gas to identify and assist manufacturers interested in expanding modernizing, relocating, training, retraining or developing new technologies. This public/private partnership provides information and technical assistance to the Northern Illinois industrial base in a way that promotes Illinois’ positive business climate.

A statewide network, entitled the Illinois

Technology Enterprise Centers Program (ITECs), has been established to assist entrepreneurs, innovators, and start-up firms in high-growth, high-technology sectors. The program is intended to further the technical or managerial skills of owners; aid ventures in locating financing, and help new companies with product development and marketing in support of new venture formation within the state.

Procurement

A major form of technical assistance involves procurement. State government uses large quantities of commodities, supplies and equipment. Whether it is paper clips, paper, desks, computers, or automobiles, state agencies procure goods and services from businesses. The large volume of state contracts with vendors prompted the enactment of state laws such as the Small Business Set-Aside Program and the Illinois Business Enterprise Program for Minorities, Females, and Persons with Disabilities (BEP) to promote the economic development of such businesses. In particular, the BEP counsels minority businesses on how to obtain state contracts, and encourages state agencies to allocate at least 12% of their contracts to qualifying businesses.

The Department of Central Management Services (CMS), in cooperation with other state agencies, administers these programs. CMS certifies vendors and also provides procurement information, rules and forms through publications and the Internet. A key publication is the Procurement Bulletin that includes a list of requests from state agencies for bids for general supplies and services (CMS component), transportation (Department of Transportation component), construction (Capital Development Board component), and higher education (university component). Certification workshops and educational seminars are also conducted periodically to assist businesses.

Another publication from CMS, entitled "How to Do Business With the State for

Commodities, Equipment and Supplies," provides answers to questions that vendors may have about bidding and/or selling goods and services to the State of Illinois. Valuable information such as this, copies of procurement rules and statutes, and descriptions of CMS programs are available through the CMS web site.

The Capital Development Board (CDB), as the state's construction management agency, provides periodic seminars for firms that want to participate in CDB projects, and training sessions for firms that want to learn more about state project procedures. Information, forms and publications are available from the agency's web site.

The Department of Transportation (DOT) also has a commitment to assist businesses in contracting with the state. DOT has an extensive array of information on its web site under the heading, "Doing Business with IDOT." In particular, the Bureau of Small Business Enterprises administers the federally-mandated Disadvantaged Business Enterprise (DBE) program to provide contracting opportunities to small businesses owned and operated by socially and economically disadvantaged persons. DOT also has support service consultants to increase the effectiveness of approved on-the-job training programs for minorities, women and the disadvantaged.

Export Assistance

Another form of technical assistance to businesses involves foreign trade. The Department of Commerce and Community Affairs' International Trade Office (ITO) has developed programs to help Illinois firms compete and succeed in global markets. Each program is structured to help companies understand and move through the stages of the export process. In addition to being the center of Illinois' export assistance efforts, the ITO Chicago headquarters identifies and participates in international trade events throughout the world. Chicago-based international marketing representatives

coordinate with the ITO overseas offices to recruit and provide counseling, pre-show publicity, logistics, appointments, and networking events for new-to-market and export-ready Illinois firms participating in a particular show.

The Department of Agriculture also has a number of export and promotional assistance programs for businesses. The assistance ranges from export counseling and seminars to trade shows and foreign trade missions. Businesses can obtain booth space in Illinois exhibits or meet face-to-face with prospective international buyers.

Conclusion

Illinois State government is very active in helping businesses. There are multitudes of programs available. The most prevalent form of the help is technical assistance, but grants and loans and other financial help are also available. Loans outnumber grants, and in many cases the assistance is provided directly to local governments rather than directly to businesses. However, businesses are among the ultimate beneficiaries of the financial assistance devoted to infrastructure improvements such as roads, bridges, water and sewer lines, and rail and airport facilities.

This state assistance to business does come with a price tag. Whether state government makes direct expenditures for the assistance, or foregoes tax revenues because of deductions or credits, the fact is that funds are being spent to assist businesses. This assistance is just as much a part of public policy as the support for education, transportation or social services. ■



Fiscal Responsibility and Township Government

The Problem

In the Fiscal Responsibility Report Card - 1999, the Office of the Comptroller indicated that townships were carrying very high fund balances. In fiscal year 1999, the fund balances of township governments were significantly higher than all other local governments — including municipalities, counties, and fire protection, library, and park districts.

Since that time, the Office of the Comptroller and the Township Officials of Illinois (TOI) have collaborated to determine why the fund balances were so high, and review methods to improve township financial status.

Preliminary fiscal year 2000 data indicate that 379 townships (out of 1,433) have a fund-balance that equals more than two years of expenditures, or 200%. This figure is significant, as fund balances equaling two years of township spending could be a legal liability. The Illinois Supreme and Appellate Courts have consistently held that having available funds of more than two times average annual expenditures is strong evidence of an unnecessary accumulation and is sufficient to sustain an objection to the fund's tax levy. (See *Toynnton v. Commonwealth Edison*, 285 Ill.App.3d 357; 674 N.E.2d 809 (3rd Dist 1996)).

In an effort to specifically identify the cause and contributing factors of township surplus funds, the Office of the Comptroller developed and mailed a survey to each government identified as having exceptionally high fund balances (in

excess of 200%). More than 74% of the townships receiving that correspondence responded.

Township officials indicated the high fund balances were primarily found in the General Assistance fund and the Joint Bridge fund.

Potential Solutions

1. Incorporation of long-term financial planning and dedicating funds:

Townships, like all responsible units of local government, should engage in long-term financial planning. Specific future capital projects, especially those of the highway commissioner, should be identified in a written document.

Identifying the specific (and realistic) purpose for which today's surplus is intended, will help alleviate the potential legal liability that excess accumulation of taxpayer monies could bring upon the township. For instance, a surplus in the Joint Bridge Fund is acceptable if it can be shown that there is a particular project for which those funds are intended (see *In re O'Connor*, 80 Ill.App.3d 354; 399 N.E.2d 683 (3rd Dist 1980)). Having a formal written capital plan could be the difference between avoiding or facing an expensive lawsuit brought forth by angry taxpayers.

Upon legal dedication of these funds, the reporting of the township's fund balance on the Annual Financial Report can be indicated as reserved (dedicated) for a particular project or unreserved (un-dedicated).

2. Adjusting budget and levy practices

The budgeting and levying practices of townships must allow for accurate taxation for unambiguous township programs and services. The following highlight some suggested remedies to over-taxation:

A) Take less money:

Adjust the tax levy for the problem fund. Townships could cease taxation for the fund, reduce the fund levy, or freeze the fund levy until the excess funds are reduced through current spending levels.

B) Spend the money:

A township could expand or start new projects or programs. In addition, depending on the restrictions of a particular fund, redistribution of surpluses to other funds is an option. Likewise, a township could expend surplus funds on external projects as authorized by law (the Township Code provides for certain types of expenditures to assist school districts or other local governments). Further, State laws authorize intergovernmental agreements that provide townships an opportunity to form partnerships that could more efficiently and effectively serve local residents and taxpayers.

C) Return the money:

Since taxpayers provided the money, some townships may want to explore the option of returning surpluses to the taxpayers. Providing refunds under the Fiscal Responsibility Law (35 ILCS 200/30) would afford townships the opportunity to create a tax reimbursement account, transfer the surplus amount into the fund and refund the surplus to its taxpayers. The amount of money rebated, the application process and the recipients of the rebate are to be determined by the township.

Since September, Bourbonnais Township offered a \$250,000 rebate and LaCledde Township offered an \$85,000 rebate. Several other townships have requested assistance in rebating surplus funds to taxpayers. ■

Cemetery Care Corner concluded, from page 7

for crematories dropped most dramatically, from \$46,215 to \$4,415. (Revenues collected from penalties are deposited into the General Revenue Fund).

Other Fees

In addition to fines, the Cemetery Care and Burial Trust Department collects 21 different fees from funeral home and cemetery operators and pre-need contractors. The three primary laws under which these entities are licensed (the Illinois Cemetery Care Act, Funeral or Burial Funds Act, and Pre-Need Cemetery Sales Act) all provide for a fee to accompany each report submitted to the Office.

In fiscal year 2001, proceeds from these fees totaled \$246,156. By comparison, this amount was eclipsed by some of the larger fee collectors in the state, such as the Secretary of State's Office (\$1.5 billion) and the Department of Public Aid (about \$700 million).

The largest single fee source in fiscal year 2001 was the Pre-Need Sales Contract Fee that totaled \$84,740 or 33% of the total collected. Sellers of pre-need arrangements are required to pay \$5 to the Comptroller's Office for each contract entered into, with proceeds deposited into Cemetery Consumer Protection Fund, a special state fund established to provide restitution to victims of pre-need sales fraud.

Penalties were the second largest fee source contributing 27% of the total, followed by audits with 25%. The Office collected \$23,085, or 9% of the total, in Burial Trust, Cemetery Care, Crematory and Pre-Need reporting fees during fiscal year 2001. Funds collected from this source are deposited into the Comptroller's Administrative Fund. ■

Focus On Revenue concluded, from page 8

tion from state utility taxes.

The Economic Development for a Growing Economy (EDGE) program is available to companies investing at least \$5 million and creating 25 or more new jobs. Benefits, as determined in an agreement between the company and the Department of Commerce and

Community Affairs, are based on the personal income tax collected from newly created jobs and are taken as tax credits against the Illinois corporate income tax. During the past legislative session, the Corporate Headquarters Relocation Act extended EDGE benefits to large corporations moving their headquarters to Illinois. ■

Focus On Spending concluded, from page 9

has invested \$3.6 million in 14 companies.

In the fiscal year 2000 Annual Report, IDFA reports that 1,437 jobs have been created. A breakdown of jobs created by

program indicates; Not-For-Profit Bonds created 579 jobs, Industrial Revenue bonds 723 jobs, Housing bonds 1 job, Participation Loans 125 jobs, and Venture Capital 9 jobs. ■

Fiscal Forum

Last month's question concerned the State budget and spending priorities. Readers were asked to rank each of the following budget areas on a scale from 1 to 10 (with 1 = least important, 5 = moderately important and 10 = most important). The question and the responses from our readers are presented below:

<u>Budget Function</u>	<u>Sum of Scores</u>	<u>Average Score</u>
Education	1,704	6.3
Public Safety	1,672	6.2
Human Services/Public Health	1,567	5.8
Economic Development	1,536	5.7
Transportation	1,482	5.5
Environment	1,337	4.9

This month's question also concerns the State budget but with an emphasis on tax expenditures that affect businesses.

Should the State provide more tax incentives to keep or attract businesses in Illinois?

YES NO

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

Vital Statistics

The Heartbeat of Illinois' Finance

Slow First Quarter Revenues Exacerbate Cash Flow Problems

Fiscal year 2002 began with a General Funds available cash balance of \$1.126 billion, \$391 million less than the prior year. During the first quarter of the fiscal year, spending demands exceeded revenue and the available cash balance fell to \$386 million at the end of September, \$600 million below last year. Last year, the drop over the first quarter amounted to \$531 million and reflected the transfer of \$260 million to the Fund for Illinois' Future. This year, the cash balance fell \$740 million reflecting the rapid slowing in economic activity.

The dramatic drop in the General Funds cash balance was concentrated in the General Revenue Fund (GRF), the state's largest operating fund, where the balance fell from \$683 million at the start of the year to \$8 million at the end of September. After factoring in payables on hand (which exceeded GRF resources during much of the last half of the quarter), the effective GRF balance was negative \$191 million at the close of the quarter. Spending demands in excess of available cash forced payment delays during the last 27 processing days of the quarter.

General Funds Revenues Through Three Months Down 5.3%

General Funds revenues in the first quarter of fiscal year 2002 were \$5.319 billion, \$296 million lower than the first quarter last year. The weakness in revenues was evident across several receipt sources, especially those tied most directly to the economy, namely income and sales taxes. Both individual and corporate income taxes dropped, falling by 3.3%

and 26.7%, respectively. Although sales taxes were up 1.1%, this growth does not reflect the suspension of the sales tax on motor fuel last year. After receipts are adjusted for this factor, sales taxes actually declined by approximately 2.2%. In comparison, this year's original budgeted annual growth for those sources was 1.8% in corporate income taxes, 4.4% in individual income taxes, and 4.8% in sales taxes (factoring in last year's suspension of the sales tax on motor fuel).

Using the original quarterly estimates of the Bureau of the Budget, revenues fell \$416 million or 7.3% short of the first quarter estimate of \$5.735 billion. This trend was evident throughout the quarter with July receipts \$99 million lower than the prior year, August receipts another \$45 million lower, and September receipts \$152 million below last year.

In order to reach the original annual estimates, revenues would need to grow 6.4% over the last 3 quarters of the fiscal year. Given the recent national tragedy, the deepening economic slowdown and the resulting uncertainty, it became apparent that the last 3 quarters would not achieve that level of growth. Therefore, the Bureau recently reduced their fiscal year 2002 General Funds revenue estimate by \$350 million from \$25.000 billion to \$24.650 billion. Revisions to individual revenue sources include: individual income tax decreased by \$150 million, corporate income tax decreased by \$85 million, sales taxes decreased by \$165 million, investment income decreased by \$30 million, public utility taxes decreased by \$20 million

and federal source revenues increased by \$100 million.

The financial effects of September's tragic events will become more evident in the next quarter, when the taxes from most of September sales are received, and if income tax withholdings begin to soften further with additional job layoffs. Estimated personal income tax payments over the next several months may also reflect any capital losses experienced due to the recent decline in equity markets. Estimated corporate taxes may also reflect any reduction in corporate earnings and capital losses.

General Funds Expenditures Through Three Months Down 1.4%

Through September, General Funds cash spending totaled \$6.059 billion, \$87 million or 1.4% below last year. The \$87 million decrease includes an \$88 million increase in lapse period spending, a \$30 million increase in spending from current year appropriations, and a \$205 million decrease in transfers out. Last year transfers out in the first quarter included a \$260 million transfer from the General Revenue Fund to the Fund for Illinois' Future. Absent that transfer last year, transfers this year would be up \$55 million. The small increase in current year spending is due to the lack of available cash to make payments.

Awards and grants spending increased \$164 million or 4.3% while operations increased \$85 million or 4.9%, transfers out declined \$205 million or 27.8% and all other spending increased \$5 million. After three months of fiscal year 2002, expenditures have exceeded revenues by \$740 million resulting in a decrease in the available cash balance from \$1.126 billion at the beginning of the fiscal year to \$386 million at the end of September.

Of the \$164 million increase in grant spending, Public Aid is up \$64 million or 5.3% through September while the Department of Human Services has increased by only \$4 million or 0.5%. Awards and grants spending by the State Board of Education is down \$7 million as a result of the timing of some categorical payments, while higher education and Teachers' Retirement System grants have increased \$21 million each.

VITAL STATS continued, next page

Spending for operations totaled \$1.824 billion through September, \$85 million higher than comparable expenditures last year. Higher education operations are up 7.8% or \$33 million, while all other operations increased \$52 million (3.9%).

While the dollar amount of vouchers presented for payment is above last year, actual cash payments are down due to the lack of available cash. The difference between these two measures is vouchers payable.

Cash Balances

With the books now closed on fiscal year 2001, the General Funds recorded a positive budgetary balance (end-of-year cash balance minus lapse period spending) for the fifth consecutive year. While the balance showed a

\$300 million surplus, that surplus dropped for the first time in five years, falling from \$777 million last year. At the same time, the budgetary balance in the General Revenue Fund recorded its first deficit (negative \$124 million) since fiscal year 1996, falling from a surplus of \$278 million last year. That means that \$124 million of fiscal year 2002 GRF resources were needed to pay for liabilities incurred last year.

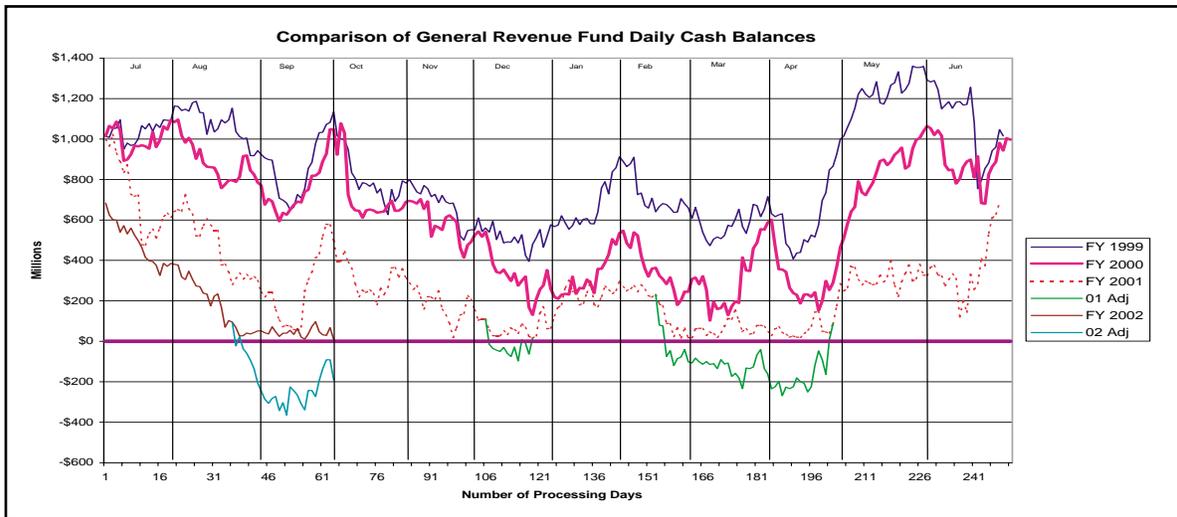
So far in fiscal year 2002, slowing revenues have contributed to the current negative cash flow situation the State is experiencing. In fact, on 27 days out of a total of 63 (over 40%) in the first quarter, payment demands exceeded resources. During those 27 days, the cash position in the General Revenue Fund reached a low of negative \$364 million and has only been above negative \$100 million on 2 pro-

cessing days since August 28th.

This is the first time since fiscal year 1996 that cash flow difficulties have surfaced this early in the year.

Absent budget actions to reduce the growth in spending or increase revenues, it is now expected that payment demands will exceed resources throughout the remainder of the fiscal year. The possibility of a reprieve at the end of June 2002 decreases with each day revenues come in even further below the estimates.

Although there is \$226 million available in the Budget Stabilization Fund, that amount will only lessen the cash flow problems, not eliminate them. In addition, any amount "borrowed" from the Fund must be repaid by the end of the fiscal year. ■



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

	Two Months			
	August 2001	FY 2002	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 916	\$ 1,126	\$ (391)	(25.8) %
Revenues	1,754	3,344	(144)	(4.1)
Expenditures	2,185	3,985	(203)	(4.8)
Ending Balance	\$ 485	\$ 485	\$ (332)	(40.6) %
General Revenue Fund				
Available Balance	\$ 318	\$ 683	\$ (314)	(31.5) %
Revenues	1,477	2,812	(138)	(4.7)
Expenditures	1,752	3,452	(252)	(6.8)
Ending Balance	\$ 43	\$ 43	\$ (200)	(82.3) %
Common School Special Account Fund				
Available Balance	\$ 189	\$ 66	\$ (3)	(4.3) %
Revenues	130	258	5	2.0
Expenditures	111	116	14	13.7
Ending Balance	\$ 208	\$ 208	\$ (12)	(5.5) %
Education Assistance Fund				
Available Balance	\$ 385	\$ 355	\$ (60)	(14.5) %
Revenues	80	157	(13)	(7.6)
Expenditures	252	299	38	14.6
Ending Balance	\$ 213	\$ 213	\$ (111)	(34.3) %
Common School Fund				
Available Balance	\$ 24	\$ 21	\$ (15)	(41.7) %
Revenues	178	233	16	7.4
Expenditures	180	232	10	4.5
Ending Balance	\$ 22	\$ 22	\$ (9)	(29.0) %

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)

	Two Months			
	August 2001	FY 2002	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 535	\$ 1,021	\$ (5)	(0.5) %
Corporate	11	34	1	3.0
Total, Income Taxes	\$ 546	\$ 1,055	\$ (4)	(0.4) %
Sales Taxes	525	1,038	20	2.0
Other Sources:				
Public Utility Taxes	103	165	(23)	(12.2)
Cigarette Taxes	33	67	0	0.0
Inheritance Tax (gross)	43	65	(2)	(3.0)
Liquor Gallonage Taxes	9	19	(5)	(20.8)
Insurance Taxes and Fees	4	6	(2)	(25.0)
Corporation Franchise				
Tax and Fees	12	19	(3)	(13.6)
Investment Income	21	38	(14)	(26.9)
Cook County IGT	0	54	0	0.0
Other	25	39	3	8.3
Total, Other Sources	\$ 250	\$ 472	\$ (46)	(8.9) %
Total, Cash Receipts	\$ 1,321	\$ 2,565	\$ (30)	(1.2) %
Transfers In:				
Lottery Fund	\$ 43	\$ 73	\$ 8	12.3 %
State Gaming Fund	40	80	(13)	(14.0)
Protest Fund	0	1	(1)	(50.0)
Other Funds	22	39	(30)	(43.5)
Total, Transfers In	\$ 105	\$ 193	\$ (36)	(15.7) %
Total, State Sources	\$ 1,426	\$ 2,758	\$ (66)	(2.3) %
Federal Sources:				
Cash Receipts	\$ 314	\$ 572	\$ (89)	(13.5) %
Transfers In	14	14	11	366.7
Total, Federal Sources	\$ 328	\$ 586	\$ (78)	(11.7) %
Total, Revenues	\$ 1,754	\$ 3,344	\$ (144)	(4.1) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Two Months			
	August 2001	FY 2002	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 446	\$ 890	\$ 88	11.0 %
Elem. & Sec. Education:				
State Board of Education	427	474	52	12.3
Teachers Retirement	68	137	14	11.4
Total, Elem. & Sec. Education	\$ 495	\$ 611	\$ 66	12.1 %
Human Services	291	596	11	1.9
Higher Education	187	205	26	14.5
All Other Grants	214	377	32	9.3
Total, Awards and Grants	\$ 1,633	\$ 2,679	\$ 223	9.1 %
Operations:				
Other Agencies	\$ 534	\$ 932	\$ 13	1.4 %
Higher Education	172	281	29	11.5
Total, Operations	\$ 706	\$ 1,213	\$ 42	3.6 %
Transfers Out	\$ 137	\$ 387	\$ (200)	(34.1) %
All Other	\$ 23	\$ 28	\$ 7	33.3 %
Vouchers Payable Adjustment	\$ (314)	\$ (322)	\$ (275)	N/A
Total, Expenditures	\$ 2,185	\$ 3,985	\$ (203)	(4.8) %

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

	Two Months			
	August 2001	FY 2002	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 210	\$ 412	\$ 24	6.2 %
Other Personal Services	22	44	1	2.3
Total, Personal Services	\$ 232	\$ 456	\$ 25	5.8 %
Contribution Retirement	43	85	5	6.3
Contribution Social Security	15	30	2	7.1
Contribution Group Insurance	65	90	(15)	(14.3)
Contractual Services	67	109	1	0.9
Travel	2	5	1	25.0
Commodities	16	25	3	13.6
Printing	1	2	1	100.0
Equipment	9	13	(3)	(18.8)
Electronic Data Processing	7	13	(1)	(7.1)
Telecommunications	6	11	(4)	(26.7)
Automotive Equipment	3	4	1	33.3
Other Operations	240	370	26	7.6
Total, Operations	\$ 706	\$ 1,213	\$ 42	3.6 %

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

	Two Months			
	August 2001	FY 2002	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 210	\$ 412	\$ 24	6.2 %
Other Personal Services	22	44	1	2.3
Total, Personal Services	\$ 232	\$ 456	\$ 25	5.8 %
Contribution Retirement	43	85	5	6.3
Contribution Social Security	15	30	2	7.1
Contribution Group Insurance	65	90	(15)	(14.3)
Contractual Services	67	109	1	0.9
Travel	2	5	1	25.0
Commodities	16	25	3	13.6
Printing	1	2	1	100.0
Equipment	9	13	(3)	(18.8)
Electronic Data Processing	7	13	(1)	(7.1)
Telecommunications	6	11	(4)	(26.7)
Automotive Equipment	3	4	1	33.3
Other Operations	240	370	26	7.6
Total, Operations	\$ 706	\$ 1,213	\$ 42	3.6 %

SEPTEMBER 2001

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

	Three Months			
	Sept. 2001	FY 2002	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 485	\$ 1,126	\$ (391)	(25.8) %
Revenues	1,975	5,319	(296)	(5.3)
Expenditures	2,074	6,059	(87)	(1.4)
Ending Balance	\$ 386	\$ 386	\$ (600)	(60.9) %
General Revenue Fund				
Available Balance	\$ 43	\$ 683	\$ (314)	(31.5) %
Revenues	1,680	4,492	(297)	(6.2)
Expenditures	1,715	5,167	(121)	(2.3)
Ending Balance	\$ 8	\$ 8	\$ (490)	(98.4) %
Common School Special Account Fund				
Available Balance	\$ 208	\$ 66	\$ (3)	(4.3) %
Revenues	123	381	4	1.1
Expenditures	121	237	16	7.2
Ending Balance	\$ 210	\$ 210	\$ (15)	(6.7) %
Education Assistance Fund				
Available Balance	\$ 213	\$ 355	\$ (60)	(14.5) %
Revenues	107	264	(15)	(5.4)
Expenditures	179	478	23	5.1
Ending Balance	\$ 141	\$ 141	\$ (98)	(41.0) %
Common School Fund				
Available Balance	\$ 22	\$ 21	\$ (15)	(41.7) %
Revenues	186	419	27	6.9
Expenditures	181	413	10	2.5
Ending Balance	\$ 27	\$ 27	\$ 2	8.0 %

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)

	Three Months			
	Sept. 2001	FY 2002	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 659	\$ 1,679	\$ (58)	(3.3) %
Corporate	125	159	(58)	(26.7)
Total, Income Taxes	\$ 784	\$ 1,838	\$ (116)	(5.9) %
Sales Taxes	494	1,533	16	1.1
Other Sources:				
Public Utility Taxes	68	233	(33)	(12.4)
Cigarette Taxes	33	100	0	0.0
Inheritance Tax (gross)	33	98	2	2.1
Liquor Gallonage Taxes	6	25	(9)	(26.5)
Insurance Taxes and Fees	42	48	(3)	(5.9)
Corporation Franchise Tax and Fees	13	32	(2)	(5.9)
Investment Income	12	50	(23)	(31.5)
Cook County IGT	23	77	0	0.0
Other	18	57	(4)	(6.6)
Total, Other Sources	\$ 248	\$ 720	\$ (72)	(9.1) %
Total, Cash Receipts	\$ 1,526	\$ 4,091	\$ (172)	(4.0) %
Transfers In:				
Lottery Fund	\$ 45	\$ 118	\$ 16	15.7 %
State Gaming Fund	50	130	(6)	(4.4)
Protest Fund	0	1	(1)	(50.0)
Other Funds	15	55	(40)	(42.1)
Total, Transfers In	\$ 110	\$ 304	\$ (31)	(9.3) %
Total, State Sources	\$ 1,636	\$ 4,395	\$ (203)	(4.4) %
Federal Sources:				
Cash Receipts	\$ 331	\$ 902	\$ (83)	(8.4) %
Transfers In	8	22	(10)	(31.3)
Total, Federal Sources	\$ 339	\$ 924	\$ (93)	(9.1) %
Total, Revenues	\$ 1,975	\$ 5,319	\$ (296)	(5.3) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Three Months			
	Sept. 2001	FY 2002	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 385	\$ 1,275	\$ 64	5.3 %
Elem. & Sec. Education:				
State Board of Education	492	966	(7)	(0.7)
Teachers Retirement	68	205	21	11.4
Total, Elem. & Sec. Education	\$ 560	\$ 1,171	\$ 14	1.2 %
Human Services	203	799	4	0.5
Higher Education	18	223	21	10.4
All Other Grants	133	510	61	13.6
Total, Awards and Grants	\$ 1,299	\$ 3,978	\$ 164	4.3 %
Operations:				
Other Agencies	\$ 439	\$ 1,370	\$ 52	3.9 %
Higher Education	173	454	33	7.8
Total, Operations	\$ 612	\$ 1,824	\$ 85	4.9 %
Transfers Out	\$ 145	\$ 532	\$ (205)	(27.8) %
All Other	\$ (2)	\$ 27	\$ 5	22.7 %
Vouchers Payable Adjustment	\$ 20	\$ (302)	\$ (136)	N/A
Total, Expenditures	\$ 2,074	\$ 6,059	\$ (87)	(1.4) %

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

	Three Months			
	Sept. 2001	FY 2002	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 199	\$ 612	\$ 37	6.4 %
Other Personal Services	21	65	1	1.6
Total, Personal Services	\$ 220	\$ 677	\$ 38	5.9 %
Contribution Retirement	42	126	7	5.9
Contribution Social Security	14	44	2	4.8
Contribution Group Insurance	70	160	3	1.9
Contractual Services	53	162	5	3.2
Travel	2	6	0	0.0
Commodities	13	37	3	8.8
Printing	0	3	1	50.0
Equipment	4	17	(3)	(15.0)
Electronic Data Processing	3	17	0	0.0
Telecommunications	3	13	(5)	(27.8)
Automotive Equipment	1	5	0	0.0
Other Operations	187	557	34	6.5
Total, Operations	\$ 612	\$ 1,824	\$ 85	4.9 %

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

	Three Months			
	Sept. 2001	FY 2002	Change From Prior Year	
			\$	%
State Board of Education:				
General State Aid	\$ 269	\$ 544	\$ 34	6.7 %
All Other	223	422	(41)	(8.9)
Public Aid	385	1,275	64	5.3
Human Services	203	799	4	0.5
Higher Education:				
Student Assistance Commission	13	100	(1)	(1.0)
Community College Board	1	99	13	15.1
Other	4	24	9	60.0
Teacher's Retirement	68	205	21	11.4
Children and Family Services	73	187	(14)	(7.0)
Aging	19	59	3	5.4
Revenue	14	48	32	200.0
All Other	27	216	40	22.7
Total, Awards and Grants	\$ 1,299	\$ 3,978	\$ 164	4.3 %

PUBLICATION REQUEST FORM...

DEAR READER:

This special quarterly issue of *Fiscal Focus* is being mailed to readers who may not have been aware of this publication. If you are receiving *Fiscal Focus* for the first time and would like to continue to receive it, we need to hear from you. Please fill out the information below, or e-mail your request to griffde@mail.ioc.state.il.us.

Is the address below correct? Yes No

If yes, mail this form to the return address listed below.

If no, complete the following form and mail to the return address listed below.

FIRST NAME _____ LAST NAME _____

TITLE _____ ORGANIZATION _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____ E-MAIL _____

MAIL FORM TO: Research & Fiscal Department, Attn: *Fiscal Focus*
Office of the Comptroller
325 West Adams Street
Springfield, IL 62704-1871

COMPTROLLER DANIEL W. HYNES

Contact us at our web address: <http://www.ioc.state.il.us>

Fiscal FOCUS
QUARTERLY

COMPTROLLER
Capitol Building
Springfield, Illinois 62706

