FISCAL FOCUS

Comptroller Daniel W. Hynes June 1999

What's New...

- Comptroller Hynes to hold Cemetery Care hearings July 15th in Marion, August 4th in Decatur.
- Coming in July - an overview of the FY2000 budget.

Cover Story...

State Taxation of Internet Sales

The sales tax has long been one of the mainstays of state revenue structures. Largely collected by retailers, the tax is easy to administer, provides fairly steady receipts to governments throughout the year, and, because the tax is only levied on transactions voluntarily entered into by the taxpayer, is reasonably well related to ability to pay.

The Illinois sales tax is imposed on a seller's receipts from the sale of tangible personal property. If the seller does not charge the sales tax, the purchaser, under the use tax provisions, owes the tax directly to the Department of Revenue. The growth in mail order, Internet, and other remote sales has created a problem in collecting sales tax revenues.

Federal courts have ruled that a state can not compel collection of the sales tax by companies that have no physical presence or ***nexus*** in the state. As a result, mail order operations with no stores, warehouses, or employees in a state need not collect the tax from purchasers located in the state. The consumer owes the tax revenue, but the state has no easy means of enforcing tax payment. Even if the state were able to obtain information on sales to consumers in Illinois, such as from shippers' records, billing purchasers directly would be costly, unpopular, and inconvenient. In an

COVER STORY continued, page 6

A Note From Dan Hynes

Dear Reader:

This month's Fiscal Focus takes a look at sales on the Internet and analyzes the potential impact that transactions of this nature may have on the State's sales tax base. Sales taxes are a major source of revenue for Illinois, generating over $6 billion in fiscal year 1998 and 26.4% of all general funds revenue used to support education and the operations of State government.

Sales taxes are also used to support debt service on Build Illinois bonds, which are part of the financing mechanism for Illinois FIRST. This issue also recaps the Illinois FIRST program, comparing the program eventually enacted to the proposal that was discussed in our last issue. While the need for infrastructure improvements is undisputed, a program of this magnitude (well over $12 billion) significantly impacts taxpayers as well as the long term financial picture of the State. It is with this in mind that I have directed our Office to carefully monitor this program to ensure that accountability and the interests of the Illinois taxpayer are paramount within the spending process. To this end, there will be periodic updates on the progress and status of the Illinois FIRST program components and its implementation in this publication.

Next month we will be reviewing the Fiscal Year 2000 budget and other legislation that could impact the State's fiscal condition. I continue to place a priority on providing taxpayers critical information on how their government is working. If you have any comments or suggestions concerning our office, you can e-mail us at www.ioc.state.il.us. Your input is always appreciated.

Sincerely,

Daniel W. Hynes

In This Issue...

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

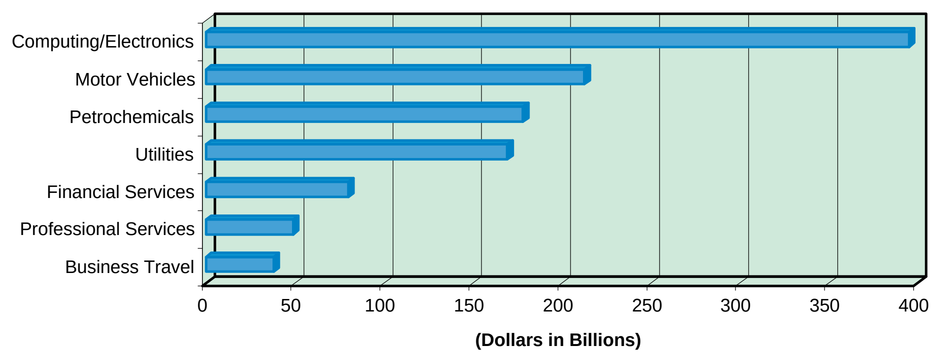
The Growth of Internet Sales

In 1998 approximately $51 billion of business was conducted over the Internet. The potential growth of Internet purchasing by businesses and consumers could have a substantial affect on the collection of sales taxes. The impact of lost sales tax because of Internet commerce could be much more significant than that lost to catalog sales, especially since fast-growing web-only businesses such as Amazon.com and eToys.com have no retail operations that allow states to claim nexus. By contrast, many successful catalog retailers such as Eddie Bauer and Sears have retail outlets that allow some states, including Illinois, to directly collect sales tax on catalog sales.

All forecasters agree that the volume of electronic commerce will explode in the next few years. Many factors are converging to make this possible. Internet access costs as represented by the cost of personal computers and on-line service fees are declining, and products such as WebTV have even eliminated the need to have a PC to go online. People are becoming more comfortable with the technology, and businesses are pushing web transactions as a way of reducing costs and increasing efficiency. Efficiency and competitive pricing in the Internet's "frictionless" marketplace are expected to dramatically increase business-to-business sales over the Internet. Richard Prem of Deloitte & Touche expects business-to-business transactions alone to exceed $300 billion by the year 2002. Forrester Research has predicted total web sales of $1.45 trillion by the year 2003.

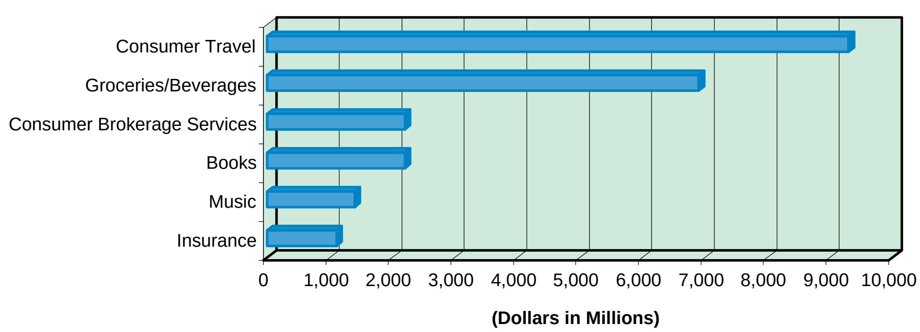
These raw numbers may overstate the potential loss of sales tax revenues due to electronic commerce. Not all transactions on the Internet would be subject to a sales tax if conducted in a conventional manner. Items purchased in a business-to-business environment are often purchased for resale and would not be taxable. While the new web-only businesses garner most of the electronic commerce press, much of the activity will involve established companies whose transactions are, in many cases, taxable. According to IBM Chairman and CEO Lou Gerstner, companies that dominate in the networked economy will be the thousands of existing companies that use the Web to transform themselves. In fact, companies such as IBM, Wal-Mart and Spiegel Company are engaged in Internet commerce and have presences in Illinois that make them subject to State sales tax. Additionally, travel, brokerage services and software are major categories of on-line purchases and are not taxed in the State of Illinois. Forrester Research estimates computing and electronics spending over the Internet by business will reach approximately $395 billion by the year 2003 with about $130 billion of that amount likely to be for software.

Projected Business-to-Business E-Commerce by the Year 2003



Source: Forrester Research

Projected Business-to-Consumer Electronic Commerce by the Year 2003



Source: Forrester Research

Fiscal Smarts Continued on Page 12

How Illinois Stacks Up

State Sales Tax: A Significant Source of Revenue

One of the pillars of most state financial structures is the sales tax. Nationally, 18% of state revenues are from the sales tax, 18% from the income tax, 28% from intergovernmental (federal and local sources) and the remaining 36% from other revenue, taxes and fees. Unlike the income tax, which in many states is based in part on the federal income tax, the sales tax is unique to state and local governments in the U.S.

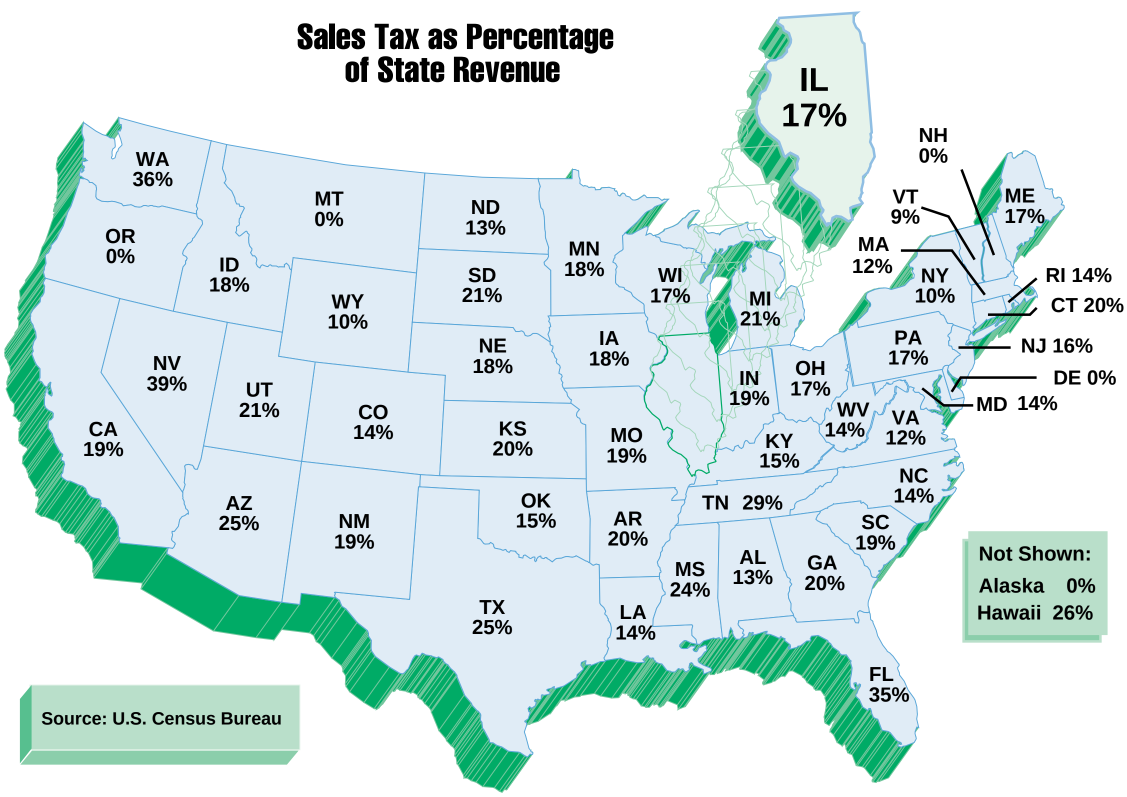
According to the 1997 U.S. Bureau of the Census - State Government Finances, the importance of the sales tax to state revenue varies from state to state. Illinois' state government reliance on the sales tax is 17%, (all funds) which is lower than the national average of 18%. State dependency on sales tax revenues varies from 39% to 9%. Nevada, Washington, Florida, Tennessee and Hawaii exhibit the greatest reliance on the sales tax and Vermont, New York, Wyoming, Virginia, and North Dakota with the least. In addition, state sales taxes are not levied in Alaska, Delaware, Montana, New Hampshire and Oregon.

A review of the Midwest shows Michigan had the highest percentage at 21% in FY 1997. Indiana and Missouri each had 19%, with Iowa at 18%. Wisconsin, Ohio and Illinois' percentages were 17% and lastly, Kentucky at 15%. Illinois ranks slightly below the Midwest average of 18%, which is also the national average.

The Illinois sales tax is a particularly important source of revenue because it funds many programs for education and human services. In fiscal year 1998, $5.274 billion or 26.4% of the monies deposited into the General Funds was from the sales tax. This reflects a 5.6% increase from fiscal year 1997. The income tax was the largest source of revenue and accounted for 40% or $7.983 billion of General Funds revenues in fiscal year 1998.

The sales tax remains one of the three largest revenue sources for Illinois, but its share has steadily declined over the last ten years. In 1989, the sales tax accounted for 30.7% or $3.728 billion of General Funds revenues, 4.3% percentage points greater than in 1998.

Future trends that could influence the amount of revenue generated by the sales tax are inflation, consumer spending, economic growth, recessions, tax exemptions, and Internet sales. Ultimately these factors will have an effect on government spending.



Focus On Revenue

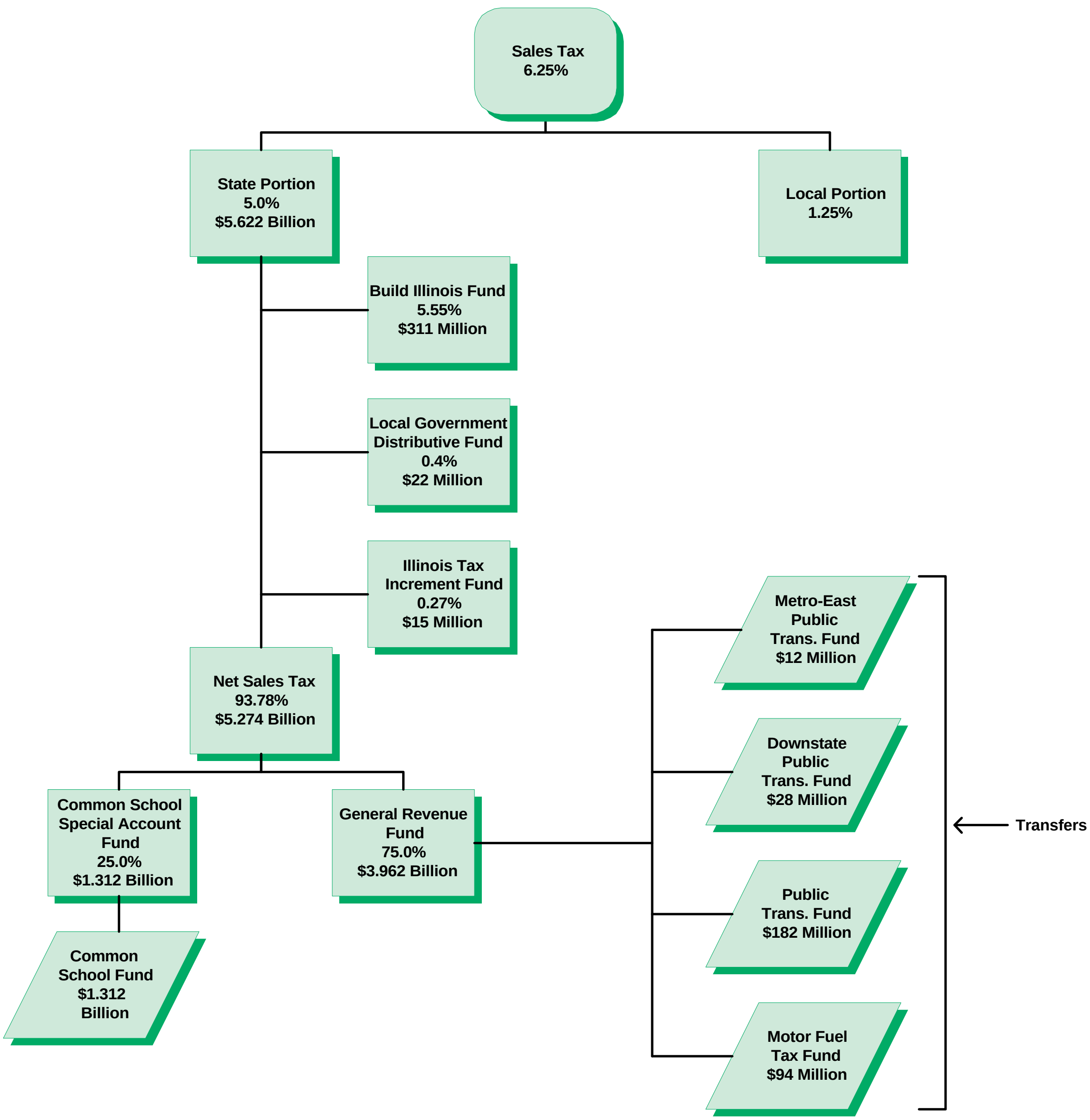
The Distribution of Illinois' Sales Taxes

The distribution of sales tax revenues throughout state government's fund structure is rather complex as the accompanying flow chart illustrates. The Department of Revenue is responsible for the collection of sales tax revenues as well as the distribution of state and local portions. For fiscal year 1998, Illinois State government's share of sales tax revenue totaled $5.622 billion.

Currently, the state sales tax rate is 6.25% with the state retaining 80% (5.0%) and the remaining 20% (1.25%) returned to local governments. In addition, the state collects sales taxes levied by local governments.

The distributions and 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 the sales tax diversion 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 sales tax is first divided based on the 80%-20% split with the local share (20%) distributed to three funds. The state portion (80%) is first distributed with 5.55% (subject to



Focus on Revenue continued, page 12

Illinois FIRST Update

In last month's Fiscal Focus Cover Story, details of the Governor's proposed "Illinois FIRST" infrastructure program were presented. Since publication of that story, the General Assembly put its stamp of approval on the Governor's plan to tackle the infrastructure needs of our state with some modifications.

The Governor's original proposal was a roughly $12.2 billion program that included approximately $4.5 billion in state bonds ($3.790 billion in general obligation and $729 million in Build Illinois), $2.0 billion in pay-as-you-go funding, $1.6 billion in RTA bonds, $1.1 billion in local school matching funds, and $3.0 billion in leveraged federal funds. The final negotiated package included an additional $399 million in bond authorizations ($374 million in general obligation and $25 million in Build Illinois). These additions bring the program total to approximately $12.6 billion.

Increases in Bond Authorizations (Millions)

Bond Type		Proposed Illinois FIRST		Legislative Adjustment		Final Illinois FIRST
General Obligation						
Transportation A	$	2,020	$	0	$	2,020
Transportation B		750		0		750
Capital Development		0		374		374
School Construction		1,020		0		1,020
Anti-Pollution		0		0		0
Total, General Obligation	$	3,790	$	374	$	4,164
Build Illinois						
Infrastructure	$	99	$	500	$	599
Economic Development		0		25		25
Education		60		0		60
Environment		70		0		70
Bond Fund for Ill. Future		500		(500)		0
Total, Build Illinois	$	729	$	25	$	754
Total Bonds	$	4,519	$	399	$	4,918

The original proposal also would have established the Bond Fund for Illinois' Future. That fund was not included in the final version.

Most of the changes to the original proposal dealt with funding for the more than $12 billion program. When the plan was initially presented, it included numerous tax and fee increases estimated to bring in $622 million each year. Some of these were altered as the plan worked its way through the legislature. As a result, the increases that were enacted are now expected to raise about $572 million per year.

The Governor's original plan called for a doubling of automobile registration fees from $48 to $96 per year. Final consensus reached between the Governor and the General Assembly raised this fee from $48 to $78, an increase of $30 or 62.5%. At the same time, senior citizens eligible for the state's Circuit Breaker Program were excluded from this fee increase. Other fees were raised in order to make up some of the revenue shortfall from the original proposal.

Numerous truck registration fees were increased by 25% rather than 15% as originally suggested. Prior to these changes, yearly registration fees on trucks ranged from $48 to $2,232 based on the weight of the truck. With the 25% increase in place, yearly fees range from $78 to $2,790.

Also increased from the original proposal were certificate of title transfers. The fee charged to transfer a vehicle title was raised from $13 to $65 - $15 higher than the original proposal.

The original "Illinois FIRST" plan called for a transfer of $125 million from the General Revenue Fund to the Fund for Illinois' Future in fiscal year 2000. The final package calls for the transfer of $285 million in June 1999 and another $260 million at the start of fiscal year 2001. The increase in the amounts transferred is partially offset by an increase in the liquor tax from the proposed $3.25 per gallon of alcohol to $4.50 per gallon. In the original proposal, the increase in liquor tax revenue was to be moved to the Fund for Illinois' Future. The General Revenue Fund will now retain that revenue.

The original plan also required $50.0 million and $75.0 million transfers from the School Infrastructure Fund to the Fund for Illinois' Future during fiscal years 2000 and 2001, respectively. Those transfers have been replaced with a $5.0 million per month transfer from the General Revenue Fund to the School Infrastructure Fund to pay for the bonded indebtedness.

Two other minor changes include the shuffling of a schedule limiting spending by the Secretary of State from the Road Fund and changes to the allocation of motor fuel taxes between the state and local governments. The original proposal called for decreases in Road Fund appropriations for the Secretary of State's office to the tune of $20 million in fiscal year 2000, $40 million in 2001, $60 million in 2002, $80 million in 2003, and $100 million

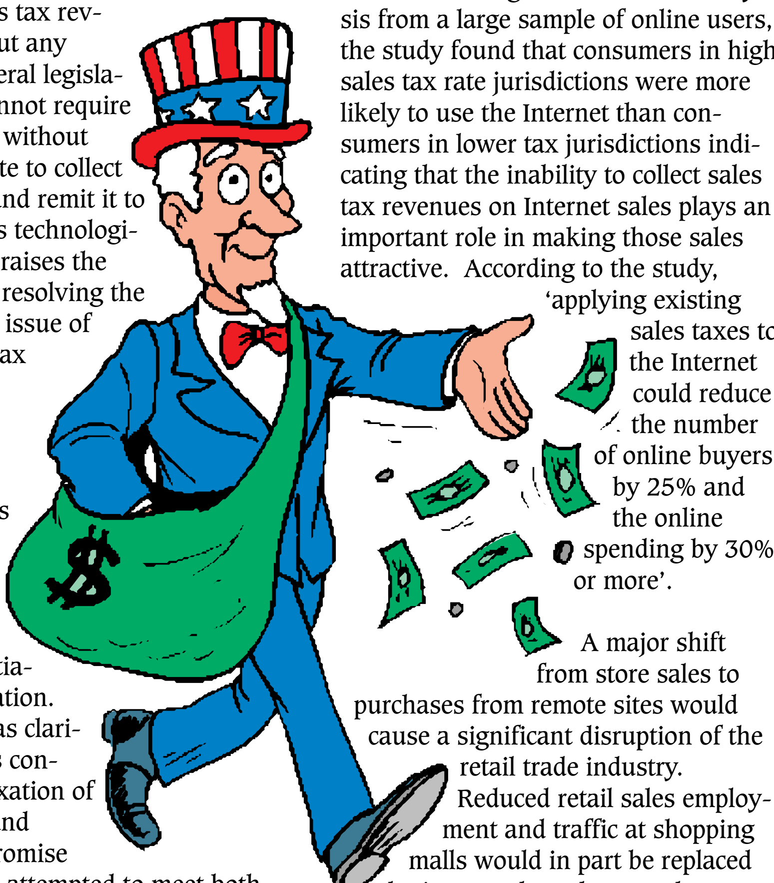
Illinois FIRST Update continued, page 8

Cover Story Continued

effort to collect unpaid use taxes, the Illinois Department of Revenue includes a separate form in the IL-1040 booklet where taxpayers can report and pay their use tax liability for the prior year. Few taxpayers take advantage of this compliance opportunity as only 4,127 returns containing $722 thousand were reported for fiscal year 1998.

Although the revenue losses from uncollected taxes on mail order sales are quite substantial (the last report by the Advisory Commission on Intergovernmental Relations estimated that the total nationwide loss from untaxed mail order sales was $3.3 billion in 1994 including an estimated Illinois loss of $233 million), the moderate growth rate of mail order sales has prevented this revenue loss from disrupting state finances.

The rapid growth in retail sales through the Internet creates new, and potentially more serious, problems in collecting sales tax revenues. Without any additional federal legislation, states cannot require remote sellers without nexus in a state to collect the sales tax and remit it to the state. This technological revolution raises the importance of resolving the long-standing issue of how to fairly tax remote sales.



Collection of taxes on mail order sales has been the subject of many years of analysis, discussion, negotiation, and litigation. This debate has clarified the issues concerning the taxation of remote sales and allowed compromise proposals that attempted to meet both government and vendor needs to be brought to the table. However, these efforts have failed to produce a solution to the problem that could be enacted into law. Congress' first effort to deal with Internet taxation is the recently passed Internet Tax Freedom Act which accomplishes little other than creating a framework for additional study of the issue. This Act puts a three year moratorium on new taxes on Internet access and transactions and creates a commission combining representatives of business and government to examine and make recommendations to Congress about Internet commerce issues including how to deal with the Internet sales tax problem.

A fair tax treatment for remote sales is not only important for protecting state sales tax revenues; it is essential for providing a level playing field for competition between store-based retailers and remote sellers. (Note some remote sellers, either because they have nexus in the state or voluntarily, do require buyers to include sales taxes in the purchase price). A recent study* explored the sensitivity of Internet sales to sales tax rates. Using cross sectional analysis from a large sample of online users, the study found that consumers in high sales tax rate jurisdictions were more likely to use the Internet than consumers in lower tax jurisdictions indicating that the inability to collect sales tax revenues on Internet sales plays an important role in making those sales attractive. According to the study, 'applying existing sales taxes to the Internet could reduce the number of online buyers by 25% and the online spending by 30% or more'.

A major shift from store sales to purchases from remote sites would cause a significant disruption of the retail trade industry. Reduced retail sales employment and traffic at shopping malls would in part be replaced by increased employment by warehouses, order processing centers, and delivery services. In 1998, retail trade establishments employed one out of every six Illinoisans with an average of 980 thousand jobs or 16.6% of total state employment. Although retail sales jobs have historically paid below average salaries, they have long been considered a good source of entry-level jobs to individuals joining the labor force. If the Internet captures sales from store based retailers, it should be due to lower prices or better service, not due to an artificial cost advantage derived from a special and inequitable tax advantage.

Remote retailers assert that their ability to make sales to any location in the world would make being subject to the same collection requirements as fixed location retailers an excessive burden. It would be an administrative nightmare to match each sale to the rates and procedures that apply at the location of the purchase. Remitting sales tax collections to each of these localities would add another burden that could seriously affect the growth of Internet commerce. Internet retailers also feel that as a start up industry, with small firms experimenting with innovative technology, they should be given the opportunity to establish their industry before being laden with complicated administrative responsibilities. A final problem arises from intangible products, such as a music file, delivered to a web site. In this case, the seller may not always be able to identify the location where the product is delivered and where the use tax is owed.

Clearly it will be necessary for all parties involved in the Internet taxation issue to compromise in order for a reasonable solution to the problem to be reached. The long history of the sales tax shows that it is most efficient to have the seller collect and remit the tax. The states normally allow the retailer to keep a portion of those collections to offset its administrative costs. In Illinois, the retailer's discount is 1.75% of tax collections. State and local governments can help ease the burden on remote retailers by agreeing to simplify the tax structure for these sales such as by limiting each state to a single tax rate at the lowest rate charged anywhere in the state.

Increased standardization in sales taxation also would help remote sellers simplify sales tax collection. Some examples are uniform state requirements on how to treat lease payments and uniform procedures for identifying exempt purchases for resale or by exempt organizations. There are also wide variations in the items subject to the sales tax among the states. For example, some states exempt apparel from the sales tax. However, establishing uniformity in state sales tax bases would prove to be very difficult. States would be loath to return popular exemptions to the sales tax base or suffer the revenue loss from major reductions in the sales tax base for the sake of tax base uniformity.

Under these circumstances, once the seller identifies the state where the product will be delivered, the tax rate for that state could be automatically added to the sales price. Local government interests could then be protected by having the state prorate a share of revenues to local governments related to the revenues they collect from existing sales taxes.

Payment of tax revenues by remote retailers could be simplified by having them make a single payment to their home state or a designated financial intermediary. (Interstate agreements already allow commercial carriers to make single payments for their motor fuel tax liabilities.) The states would then be responsible for making adjusting payments to other states. Similarly, auditing could be simplified if all states would agree to accept the findings from a single tax audit, either from the seller's home state or a designated organization. Setting a threshold of sales volume below which sales tax revenues need not be collected could assist small start up remote sales firms.

In the 1950's and 1960's, a significant portion of retail trade flowed through downtown department stores. Throughout the 1970's and 1980's, community downtown shopping areas fell prey to shopping malls and superstores. It is possible that the vitality of these shopping sites might be threatened by the Internet and e*commerce.

Tax laws seldom move at the pace of commercial innovation. The Internet sales issue is clearly an issue that bears watching. If the Internet does lead to a revolution in retailing, it is essential to the financial well being of state and local governments that these transactions are subject to taxes similar to those paid by onsite retailers. For their part, states will have to show flexibility in meeting the Internet challenge. They will have to accept a commitment to change the nature of the sales tax from a tax with unique characteristics for each taxing body to one where there is far more uniformity among the states when dealing with remote sales.

*'In a World Without Borders: the Impact of Taxes on Internet Commerce' National Bureau of Economic Research Working Paper #6863 by Professor Austan Goolsbee.

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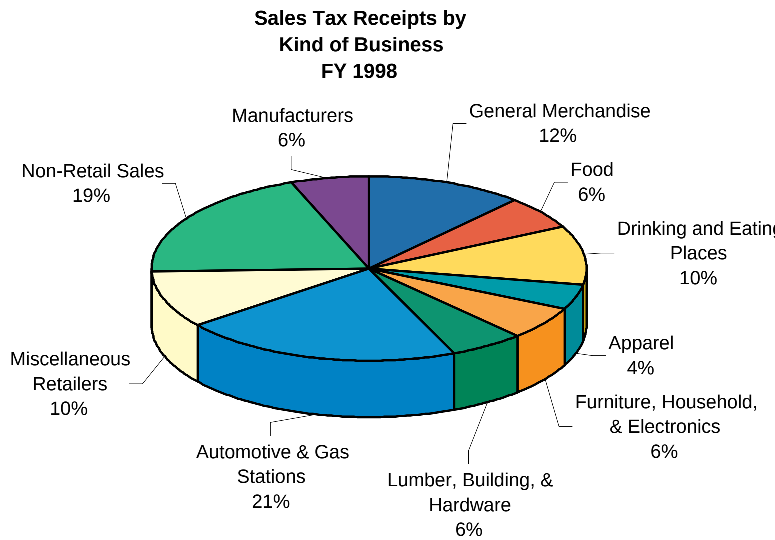
Cover Story Concluded

Potential Impact of the Internet on Illinois Sales Tax Collections

The Department of Revenue reports on sales tax revenues by the kind of business that collects the tax. The businesses that are most vulnerable to losses from remote sales are those that sell products that are not needed immediately, can be purchased with a visual inspection, and can be shipped inexpensively to the buyer. Under these criteria a significant portion of the sales tax base could be vulnerable to Internet sales losses.

These would include general merchandise sellers (12% of retail sales), apparel (4%), furniture, household, and electronics (6%), and miscellaneous (10%) which includes such retailers as pharmacies, liquor stores, sporting goods, books, jewelry, toy, gift, and floral shops. An additional loss in sales tax revenues could occur if entertainment products, currently sold in a taxable tangible book or disk format, become routinely distributed as intangible data files downloaded onto the buyers PC.

Among other kinds of businesses, the Internet is unlikely to have much impact on food (6% which is only included in the Illinois tax base for sales taxes paid to local governments) and eating and drinking establishment (10%) purchases. The biggest slice of the sales tax pie (21%) is derived from vehicle sales and service stations. Motor fuel purchases obviously cannot be made over the Internet; while, even if vehicle purchases are made from out-of-state vendors over the Internet, the sales tax will be collected when the vehicles are titled by the Secretary of State.



Illinois FIRST Update Concluded

The Illinois FIRST Revenue Stream

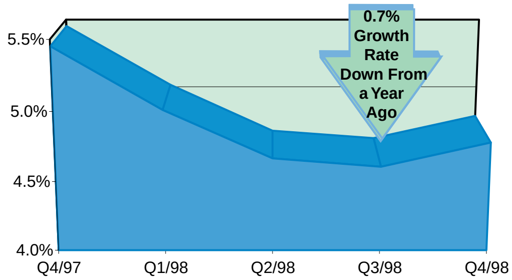
	Where the Money Would Go: Current Law	Where the Money Would Go: Illinois First
Auto Registration		
Increase from \$48 to \$78 = \$248 million	State Construction Account Fund and Road Fund	State Construction Account Fund and Road Fund
Truck Registration		
25% Increase = \$78 million	State Construction Account Fund and Road Fund	State Construction Account Fund and Road Fund
Title Transfer		
Increase form \$13 to \$65 = \$166 million		
\$48 of Increase = \$153.2 million	General Revenue Fund	Road Fund
\$4 of Increase = \$12.8 million	General Revenue Fund	Motor Vehicle License Plate Fund
Liquor Gallonage Taxes		
Increase to National Average = \$80 million	General Revenue Fund	General Revenue Fund

a year thereafter. The final version of the program calls for reductions of \$50 million in fiscal years 2000 through 2003 and \$100 million thereafter.

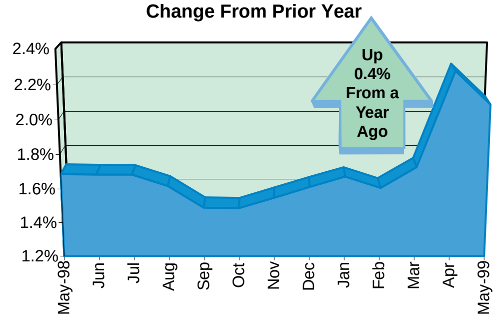
The changes to revenue sharing of motor fuel taxes between the state and local governments were quite small when compared to the original proposal. Currently, 58.4% of net motor fuel taxes (the state's share) are deposited into the State Construction Account Fund and Road Fund. The Governor's original proposal had decreased that percentage to 44.1%, however the final percentage retained by the state is set at 45.6% beginning January 1, 2000. The local percentage currently is 41.6% and was proposed to be increased to 55.9% to offset the decline to local governments from the elimination of the sales tax transfer. The final version of Illinois FIRST legislation has set the percentage at 54.4%.

Illinois Stats: Economic and Financial

Illinois Personal Income Change From Prior Year (Reported Quarterly)

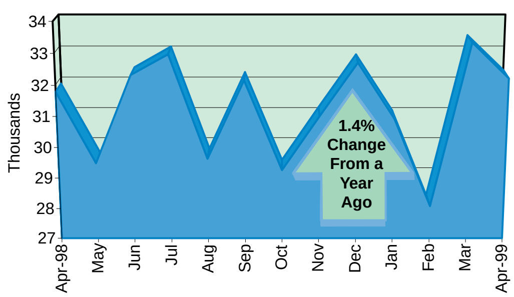


Inflation Rate Change From Prior Year

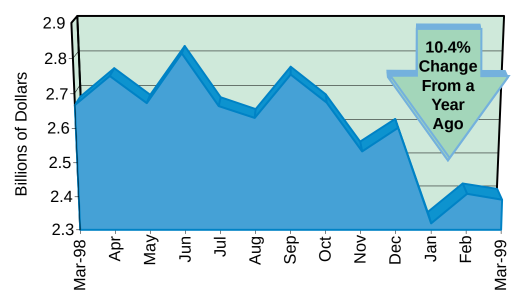


Following two months where the Illinois unemployment rate was calculated to be below 4.0%, this rate rose to 4.4% in May. The Illinois rate was 0.2% greater than the May national rate, 0.5% greater than the April Illinois rate, and 0.2% greater than its year earlier level. Inflation was also up slightly in May as the twelve month increase in the national Consumer Price Index (2.1%) was 0.4% greater than the inflation rate one year earlier. Finally, the May Chicago Purchasing Managers Index (57.9) remained above the 50 level that indicates equal numbers of reports of increasing economic activity and decreasing activity.

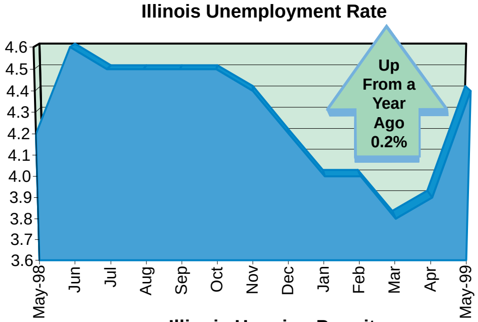
New Claims Unemployment Insurance



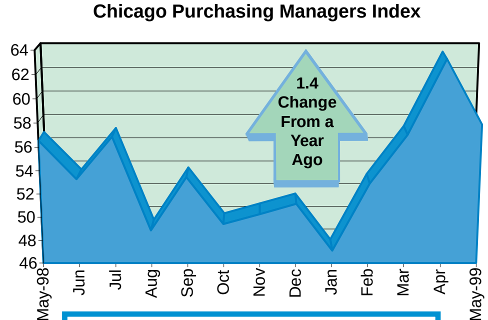
Illinois Direct Exports



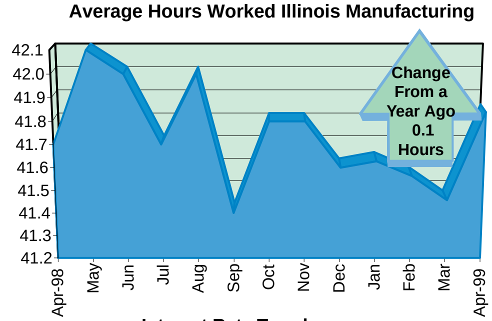
Illinois Unemployment Rate



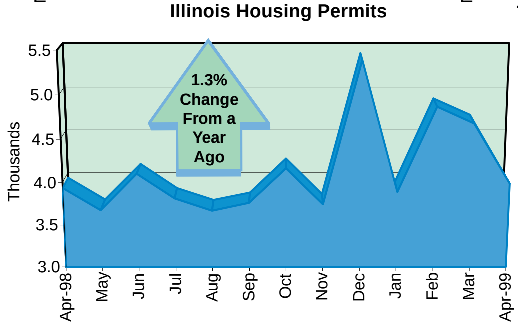
Chicago Purchasing Managers Index



Average Hours Worked Illinois Manufacturing

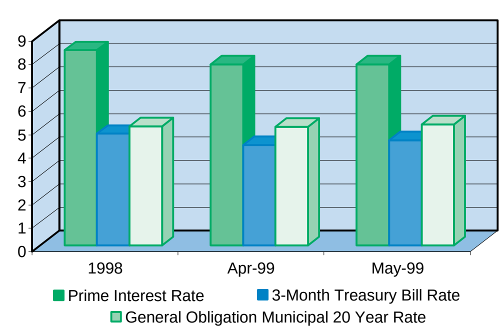


Illinois Housing Permits

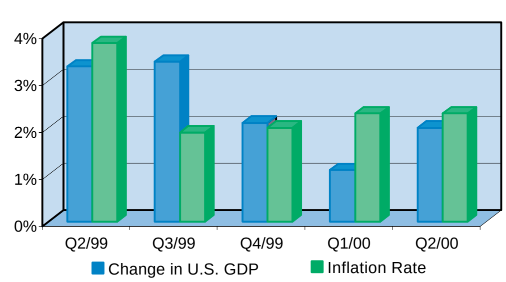


The latest Standard & Poor's DRI forecast of the U.S. economy expects economic growth to moderate in the later part of calendar 1999. After increasing at 3.3% and 3.4% rates during the middle quarters of 1999, the rate of increase for real U.S. Gross Domestic Product is forecast to vary between 1.1% and 2.1% during the final quarter of 1999 and the first half of 2000. The uptick in commodity prices that raised the inflation rate to 3.8% during the second quarter of 1999 is expected to be temporary. The inflation rate is forecast to remain below 2.5% during the final two quarters of 1999 and the first half of 2000.

Interest Rate Trends



Economic Outlook



Sources:

Illinois Department of Employment Security:
Hours Worked in Manufacturing, Unemployment Insurance Claims

U.S. Census Bureau:
Direct Exports, Housing Permits

U.S. Bureau of Labor Statistics:
Unemployment Rates, Consumer Price Index

U.S. Bureau of Economic Analysis:
Personal Income

Purchasing Managers Association of Chicago:
Purchasing Mangers Index

Standard & Poor's *DRI*:
Economic Forecasts

Federal Reserve System:
Interest Rates

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

General Funds Balance Reaches All-Time High of $1.585 Billion!

After increasing by $496 million in April, the available cash balance in the General Funds jumped another $279 million in May and closed the month with the largest available balance ever. The $1.585 billion balance at the end of May is $369 million or 30.3% higher than at the end of last May and marks the twenty-fourth consecutive month in which the General Funds balance set a record when compared to the same month in previous fiscal years. Although expenditures are expected to outpace revenues during June, it is possible that this year's ending General Funds cash balance will rival last year's record $1.202 billion.

General Funds Revenues Through Eleven Months - Up 8.4%

Through eleven months of fiscal year 1999, General Fund's revenues totaled $19.725 billion, $1.524 billion or 8.4% higher than last year. The current 8.4% rate of growth is slightly higher than the most recent Bureau of the Budget estimate. Also, the $1.524 billion of revenue growth in the General Funds through eleven months of the fiscal year is only $57 million short of the estimated growth for the entire fiscal year.

Personal income taxes along with sales tax receipts and federal source revenues account for more than two-thirds (67.8%) of the increase in General Funds revenues. Compared to the first eleven months of fiscal year 1998, personal income taxes are up $378 million or 6.1%, while sales taxes are $285 million or 5.9% higher, and federal revenues are up $370 million or 11.9%.

Other sources contributing to the revenue increase over last fiscal year include: insurance taxes and fees (up $95 million or 106.7%); inheritance taxes (up $94 million or 40.0%); public utility taxes (up $82 million or 9.8%); Gaming Fund transfers from riverboat gambling proceeds (up $67 million or 43.8%); cigarette taxes (up $54 million or 17.1%); and Cook County intergovernmental transfers (up $40 million or 26.3%). The increase in cigarette tax receipts and at least a portion of the public utility tax increase is due to a tax rate increase while the growth in insurance taxes and fees and riverboat gambling taxes is due to rate restructuring.

Corporate income taxes and lottery transfers are the only major sources of revenue to the General Funds recording a decline from last fiscal year. Through eleven months, corporate income taxes are down $16 million or 1.7% despite a strong showing in May. Corporate receipts of $91 million for the month were $51 million higher than last May and reflect a variance in the timing of deposits from this volatile source of revenue. Transfers to the Common School Fund from lottery transfers are down $30 million or 6.1% through May.

General Funds Spending Up 8.7% Through Eleven Months

After eleven months, General Funds cash expenditures totaled $19.342 billion, $1.520 billion or 8.7% higher than last year. For the year, total revenues exceed spending by $383 million resulting in an increase in the available cash balance from $1.202 billion at the beginning of the fiscal year to $1.585 billion at the end of May.

Compared to last fiscal year, total grant spending from the General Funds has increased $1.028 billion or 9.1%. Awards and grants spending by the Department of Human Services is up $273 million (14.2%), accounting for 26.6% of the increase in total grant spending. This increase is primarily due to the fact that the Department was newly formed in fiscal year 1998 and as a result had no carryover lapse period spending from the prior year. Of the $273 million increase in grant spending by the Department, $184 million is for lapse period spending occurring in fiscal year 1999 against fiscal year 1998 appropriations.

Other increases in grant spending include the State Board of Education (up $247 million or 6.9%), the Department of Public Aid (up $251 million or 7.0%), Teacher's Retirement (up $138 million or 35.0%) and Higher Education (up $70 million or 11.0%).

Spending for operations totaled $5.303 billion through May, $457 million (9.4%) higher than comparable expenditures last year. Higher education operations are up 11.2% or $146 million, while all other operations increased $311 million (8.8%).

General Funds Financial Position Continues to Be Sound

With one month left in the fiscal year, the General Funds financial position continues to be sound. Fueled by a strong economy, substantial growth in the available cash balance of the General Funds in each of the last two months enabled the books to be closed in record territory at the end of May.

Over the last several years, June revenues have typically outpaced expenditures producing an increase in the ending available cash balance over May. This year, however, expenditures will far outpace revenues for the month of June resulting in a drop in the cash balance. There are two reasons for this expected reversal. First, the Governor has ordered that the July state school aid payment be accelerated into June. Second, the Comptroller will order the June transfer of $285 million from the General Revenue Fund to the newly-established Fund for Illinois' Future under the new Illinois FIRST infrastructure program. Even with these factors, the end-of-year cash balance will likely rival last year's record $1.202 billion.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	May 1998	May 1999	Change	Eleven Months FY 1998	Eleven Months FY 1999	Change Amount	Change Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 958	$ 1,306	$ 348	$ 806	$ 1,202	$ 396	49.1 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 769	$ 805	$ 36	$ 6,208	$ 6,586	$ 378	6.1 %
Corporate	40	91	51	967	951	(16)	(1.7)
Total, Income Taxes	809	896	87	7,175	7,537	362	5.0
Sales Taxes	445	465	20	4,804	5,089	285	5.9
Other Sources:							
Public Utility Taxes	66	102	36	837	919	82	9.8
Cigarette Taxes	33	33	0	316	370	54	17.1
Inheritance Tax (gross)	18	17	(1)	235	329	94	40.0
Liquor Gallonage Taxes	4	7	3	52	52	0	0.0
Insurance Tax and Fees	1	3	2	89	184	95	106.7
Corporation Franchise Tax and Fees	9	11	2	108	109	1	0.9
Investment Income	15	18	3	164	199	35	21.3
Cook County IGT	0	0	0	152	192	40	26.3
Other	15	17	2	198	204	6	3.0
Total, Other Sources	161	208	47	2,151	2,558	407	18.9
Total, Cash Receipts	$ 1,415	$ 1,569	$ 154	$ 14,130	$ 15,184	$ 1,054	7.5 %
Transfers In:							
Lottery Fund	$ 48	$ 39	$ (9)	$ 488	$ 458	$ (30)	(6.1) %
State Gaming Fund	13	16	3	153	220	67	43.8
Protest Fund	3	1	(2)	8	13	5	62.5
Other Funds	34	22	(12)	319	377	58	18.2
Total, Transfers In	$ 98	$ 78	$ (20)	$ 968	$ 1,068	$ 100	10.3 %
Total, State Sources	$ 1,513	$ 1,647	$ 134	$ 15,098	$ 16,252	$ 1,154	7.6 %
Federal Sources:							
Cash Receipts	$ 263	$ 263	$ 0	$ 3,039	$ 3,359	$ 320	10.5 %
Transfers In	13	0	(13)	64	114	50	78.1
Total, Federal Sources	$ 276	$ 263	$ (13)	$ 3,103	$ 3,473	$ 370	11.9 %
Total, Revenues	$ 1,789	$ 1,910	$ 121	$ 18,201	$ 19,725	$ 1,524	8.4 %
Expenditures:							
Awards and Grants:							
State Board of Education	$ 286	$ 312	$ 26	$ 3,592	$ 3,839	$ 247	6.9 %
Public Aid	304	364	60	3,594	3,845	251	7.0
Human Services	141	172	31	1,919	2,192	273	14.2
Teachers Retirement	36	46	10	394	532	138	35.0
Higher Education	76	76	0	636	706	70	11.0
All Other Grants	105	78	(27)	1,194	1,243	49	4.1
Total, Awards and Grants	948	1,048	100	11,329	12,357	1,028	9.1
Operations:							
Other Agencies	308	342	34	3,540	3,851	311	8.8
Higher Education	99	63	(36)	1,306	1,452	146	11.2
Total, Operations	407	405	(2)	4,846	5,303	457	9.4
Transfers Out	175	182	7	1,613	1,649	36	2.2
All Other (Includes Prior Adjustments)	3	2	(1)	29	28	(1)	(3.4)
Total, Expenditures	$ 1,533	$ 1,637	$ 104	$ 17,817	$ 19,337	$ 1,520	8.5 %
Adjustment for Vouchers Payable	(2)	(6)	(4)	(26)	5	31	N/A
Total, Cash Expenditures	1,531	1,631	100	17,791	19,342	1,551	8.7
AVAILABLE CASH BALANCE, ENDING	$ 1,216	$ 1,585	$ 369	$ 1,216	$ 1,585	$ 369	30.3 %

Fiscal Smarts Concluded

Some popular e-commerce categories will certainly result in lost sales tax revenue. Books have proven to be a popular item on the web as evidenced by the spectacular growth of Amazon.com which had a total of 10 million customers as of May 1999 and annual sales of $610 million. Music, audio and video sales may see considerable growth as the technology (especially bandwidth) for downloading on to a CD-ROM or hard drive advances. The possibility of replacing the Compact Disc bought in a store with electronically delivered music shows the possibilities of electronic commerce. Apparel and other non-perishables also lend themselves to on-line purchasing just as they are popular among catalog buyers.

Electronic commerce growth forecasts are speculative since no one can anticipate all of the technological advances that will enable future applications. While not every on-line transaction results in lost sales tax revenue, the impact of a medium that is expected to generate over $1 trillion within four years will be significant.

Focus on Revenue Concluded

statutory adjustments) deposited into the Build Illinois Fund with 1.75% allocated to the McCormick Place Account within the fund and 3.8% allocated to the bond account, followed by the Local Government Distributive Fund which receives 0.4%, and finally the Illinois Tax Increment Fund (0.27%).

After these distributions are made, the remaining sales tax receipts are divided with 75.0% deposited into the General Revenue Fund and 25.0% to the General Revenue-Common School Special Account Fund which is then transferred to the Common School Fund for elementary and secondary education payments of general state aid and teachers retirement. Revenue sharing from the state portion of the sales tax is done by transfer from the General Revenue Fund to the:

- Public Transportation Fund
- Downstate Public Transportation Fund
- Metro-East Public Transportation Fund
- Motor Fuel Tax Fund

A portion of the sales taxes and other revenues deposited in the Build Illinois Fund through the year is in excess of the amount required to pay debt service and other costs. The excess is transferred periodically to the General Revenue Fund with most of the transfers occurring towards the end of the fiscal year due to the structuring of debt service payments.

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

Fiscal Focus

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