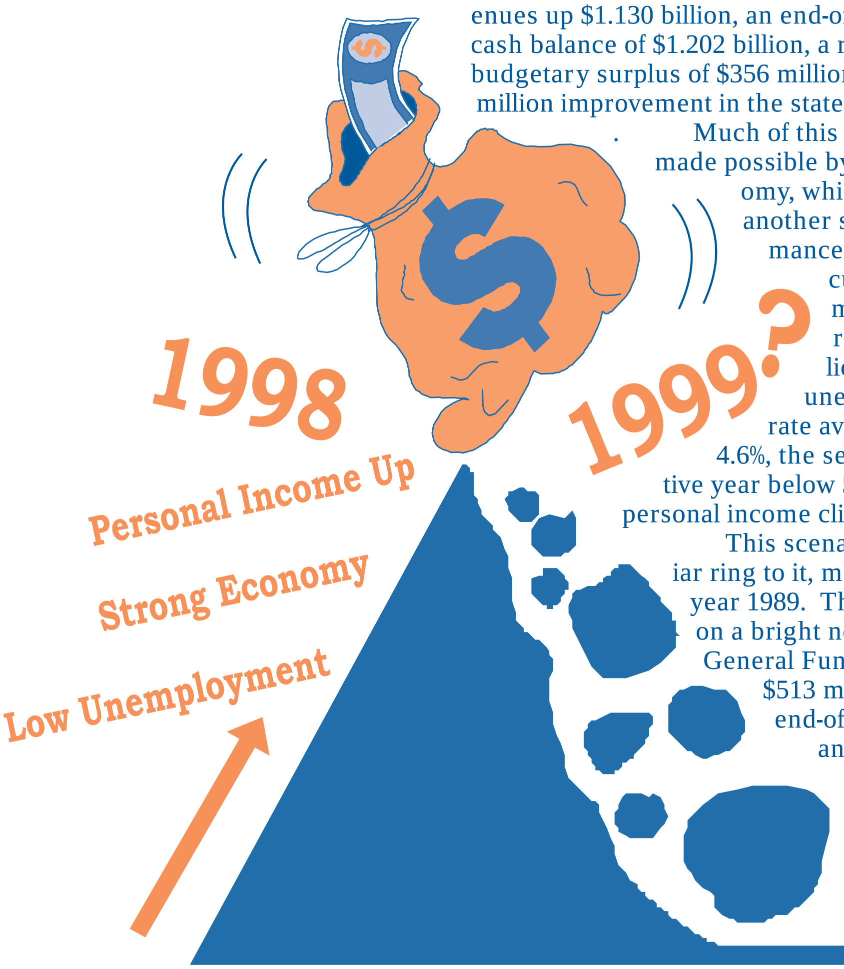
Fiscal Focus

Comptroller Loleta A. Didrickson | **December/January 1999** | **State of Illinois**

In This Issue...

COVER STORY:
The 1990s... Rags To Riches



Fiscal year 1998 was another banner year for Illinois state finance with General Funds revenues up $1.130 billion, an end-of-year available cash balance of $1.202 billion, a record-high budgetary surplus of $356 million, and a $238 million improvement in the state's GAAP deficit.

Much of this good news was made possible by a strong economy, which turned in another sterling performance. Total nonagricultural employment grew to a record 5.827 million. The state's unemployment rate averaged only 4.6%, the second consecutive year below 5%. And Illinois personal income climbed 5.1%.

This scenario has a familiar ring to it, much like fiscal year 1989. That year ended on a bright note with General Funds revenue up $513 million, a record end-of-year cash balance of $541 million, a budgetary surplus of $148 million, and a $281 million improvement in the GAAP deficit. The state economy was also doing well with nonagricultural employment at its highest level of the decade and an average unemployment rate at its lowest level since 1978. As Illinois prepared to enter the 1990s, few observers would have guessed that, within two years, the state would begin sliding into its worst financial condition in memory. Even fewer would have guessed that by the ninth year of the decade, the reversal of financial fortune would be so extreme as to put the state's budget in its best shape in memory.

Fueled by past budgetary practices, economic recession, and exploding medical costs, Illinois experienced its worst cash shortage through the first half of the decade. The seeds of the state's extended cash shortage were planted with the fiscal year 1990 budget — the first of three consecutive years where actual revenues fell far short of expectations at the time the budgets were passed. It is important to note that rev-

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A Message To You...
from Comptroller Loleta Didrickson

Welcome to our end of the year Fiscal Focus!

In this final issue of Fiscal Focus we take a look back — and a look ahead.

The 1990s have been a roller coaster of a decade, both financially and economically. This month's **Cover Story** *looks at the boom to bust to boom period between fiscal year 1989 and fiscal year 1999, and examines the reasons behind Illinois' financial fluctuations.*

Testament to the state's current economic strength is our soaring revenue growth. In **Focus on Revenue**, *we report that fiscal year 1998 marked the third-highest annual growth in revenues, with an increase in General Funds revenues of $1.130 billion.*

Appropriate for the first issue of 1999, **Local Government** *and* **Stacks Up** *provide a status report on the progress of the state, and Illinois' local governments, in making their computer systems Year 2000 compliant.*

Finally, I would like to ask the reader's indulgence as I thank some people who have been instrumental in making Fiscal Focus a premier publication.

As I took office in early 1995, I inherited the Comptroller's Monthly Fiscal Report. While the Fiscal Report was a solid product and complied with the statutes, I wanted a different publication, and a wider readership. Enter the Comptroller's Research and Fiscal Information Department, who along with the Communications Department made my vision for Fiscal Focus a reality.

I saw the need for a publication that was timely, meaningful, and reader-friendly, and that is exactly what was delivered. A little over a year into my administration, Fiscal Focus received the Clarion Competition award from Women in Communications, Inc. for excellence in fiscal reporting. But I believe the best measure of success is found in our readers, both within and outside of state government, who tell us how much they value Fiscal Focus, and the information we have provided.

My sincere thanks to Bob Brock, Director of Research and Fiscal Information. Your institutional memory, dedication, and commitment to excellence helped shape Fiscal Focus.

I want to thank our Research and Fiscal Information Department: Bill Dracos, Bonnie Ettinger, Kevin Fitzpatrick, Loren Iglarsh, and Jim Ofcarcik. Month after month, you met each assignment with renewed energy and fresh interest in the subject at hand. Your research and writing are the foundation that Fiscal Focus has been built upon. I also want to thank Janet Irlam and Brenda Voyles, who have helped keep Fiscal Focus on track. Your assistance has been invaluable.

On the production side, I will begin by thanking Jackie Price, Molly Hall and Kim Maisch, all of the Communications Department, who played an important role in editing, overseeing production, and managing distribution of Fiscal Focus. Each of you contributed to this most successful publication.

Also on the production end, a very special thank you to Rhonda Rathbone, Butch Shoopman, and everyone in the print shop. You consistently met the deadline, and your attention to detail and willingness to go the extra mile are appreciated.

I would also like to give thanks to Sally Barnes and Grafcom, Incorporated, who provided the unique and dynamic look I wanted for Fiscal Focus. Their design and artwork always enhanced our message, and their professionalism is unequaled.

Last, but certainly not least, my thanks to you, our readers. You were a most appreciative audience, and you made it all worthwhile.

Loleta Didrickson

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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Borrowing From the State

A look at the June 30, 1998 Illinois Comprehensive Annual Financial Report (CAFR) shows an outstanding loan and notes receivable balance of $3.5 billion. This large balance may surprise some citizens because they do not usually associate their state government with the loan business. But as the table to the right indicates, the state of Illinois engages in a wide variety of loan programs, including mortgage, student, local government infrastructure, business and port district construction loans.

While it is true that the loan programs discussed are not directly related to the primary responsibilities of the state, they do serve to support economic development, home ownership, and education, objectives which may suffer in a strained economy. By the same token, prompt collection of currently due amounts could also help in times of economic downturn. Many of the state's loan programs have provisions that any collections can be loaned again for a similar purpose. Prompt collection would assure that, even in a recession, the worthwhile programs funded by these loans would continue to be financed.

The General Assembly established each of these loan programs to achieve a specific objective or meet a specific need. One example, the mortgage loan program, is the largest of the state's lending programs. The bulk of this program ($1.6 billion of the balance shown in the table above) is administered by the Illinois Housing Development Authority (IHDA), and the primary purpose of the program is to encourage home ownership. Financing is provided for the acquisition, construction and rehabilitation of housing, community facilities and housing related commercial facilities, and to acquire and develop land for large-scale commercial developments.

Loans and Notes Receivable
At June 30,
(amounts in thousands)

Type of Loan	1998	1997	1996	1995	1994
Mortgage Loan Program	$ 1,644,353	$ 1,661,535	$ 1,581,182	$ 1,487,676	$ 1,414,677
Student Loan Program	1,045,478	863,258	820,861	707,806	639,861
Local Government Infrastructure	731,410	636,452	536,170	471,197	396,282
Business Loan Program	53,798	62,422	69,311	82,564	86,045
Port Districts Construction	15,528	15,578	15,628	15,678	15,728
Other	61,468	59,547	58,986	53,276	22,228
	3,552,035	3,298,792	3,082,138	2,818,197	2,574,821
Less: Allowance for Uncollectible Accounts	83,797	71,813	68,444	71,210	66,451
Net Loans & Notes Receivable	$ 3,468,238	$ 3,226,979	$ 3,013,694	$ 2,746,987	$ 2,508,370

The Authority can also make loans and purchase residential mortgages from private lending institutions. As of June 30, 1998, there were estimated uncollectibles of $24.6 million related to the IHDA's loans. Of the balance outstanding at June 30, 1998, $1.58 billion was classified as long-term which indicates a year or more before the due date. This leaves approximately $35.8 million currently available for collection.

After the mortgage loan program, student loans represent the next largest loan balance. Although all nine of the State sponsored universities make student loans; by far the largest lender in this area is the Illinois Student Assistance Commission (ISAC), with $933 million or about 89% of the State's student loans receivable. The Commission was established by the Higher Education Student Assistance Law in 1957 to create and administer a system of financial assistance that would allow residents of the State to attend qualified public or private educational institutions of their choice. To fulfill this mandate, ISAC maintains a program of loan guarantees, scholarships and grant awards.

Of all the programs administered by ISAC, the Illinois Designated Account Purchase Program (IDAPP) is the largest, with an outstanding balance of $895 million at June 30, 1998. The purpose of IDAPP is to increase participation of eligible lenders in the Commission's student loan programs by purchasing guaranteed student loans from lenders, thus reducing the lenders' collection and administrative costs. The allowance for uncollectibles applicable to IDAPP loans is $2.5 million. Almost all of these debts are considered long-term.

Another significant group of loan programs provides financing to cities, counties and various other units of local government throughout the state for infrastructure construction and maintenance. One of these programs, administered by the state's Environmental Protection Agency, provides low interest loans to local governments for the construction of wastewater treatment works. At June 30, 1998, the balance of these loans was $647.7 million, with 93% reflected as long-term. Due to the stable nature of the borrowers, no allowance for uncollectibles has been applied to this program.

The Department of Commerce and Community Affairs (DCCA) administers certain infrastructure loans as well. These programs provide financing to units of local government for roads, streets, bridges, sidewalks and other improvements in order to enhance the public infrastructure of Illinois' communities, and retain private sector jobs. On June 30, 1998, this program had a loan balance of $6.3 million, almost 71% of that long-term.

DCCA also sponsors a variety of loans to stimulate economic development. These loans are made to small and large businesses for expansion, for

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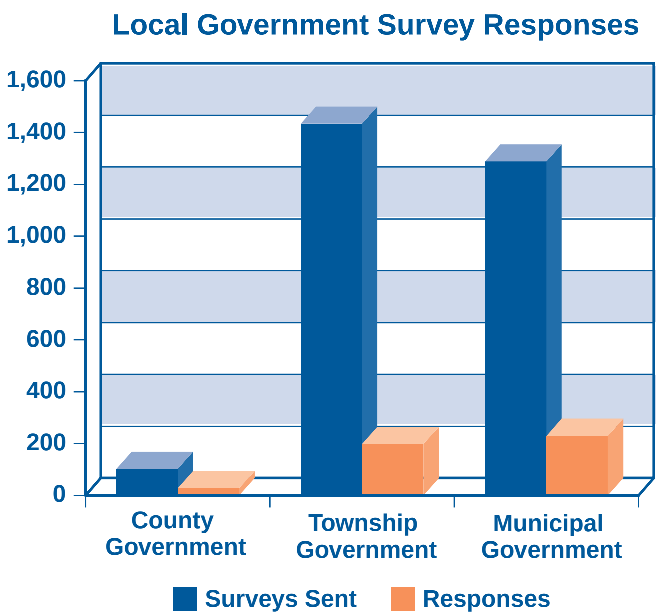
Local Governments

Local Governments Meet the Millennium

The Year 2000 problem (Y2K) has been widely reported in both private and government sectors and in the media. But despite this growing awareness, one particular level of government, local governments, does not appear to be taking steps necessary to address potential problems associated with the millennium bug.

The findings of a recent report issued by the State of Illinois Year 2000 Technology Task Force reveals some disappointing facts pertaining to local governments' handling of Y2K issues. The report, based on a survey sent to 2,823 local governments throughout the state, had a very low response rate of only 16 percent of units surveyed. The lack of response may be an indicator of lack of understanding or preparedness regarding the Y2K problem on the part of local government units. Even where awareness does exist, attention does not necessarily follow. The units that did respond to the survey reported that little time and resources are devoted to solving their Y2K problems.

The second major problem that the Task Force found is that, unlike federal and state governments, there is little coordination among state and local governments in addressing Y2K compliance. For example, the federal government and state governments held a Y2K summit on October 28, 1997 where agreement was reached to establish a National Policy Committee on Year 2000 issues. This committee brings together senior policy officers from federal and state governments to discuss recommendations for action. The summit also established a standard date format, that would be used to exchange information between federal and state governments to assure



that government systems exchange date information successfully into Year 2000. It was decided that date-related data exchanges between federal and state governments will be represented in a 4-digit format, unless there is a mutual agreement to use a different format.

Federal and state cooperation is based on long-standing relationships; however, the decentralization of state and local governments has made communication and cooperation on Y2K more difficult. As a result, coordinated efforts to fix Y2K are virtually nonexistent. The Task Force suggests that state agencies carefully examine state and local data interchanges and work closely with local authorities to keep them informed on all interchanges and Y2K issues that could impact local services or systems. Recent actions taken by the Governmental Accounting Standards Board (GASB) and the Securities and Exchange Commission (SEC) may also put pressure on local governments to take seriously their Y2K vulnerability.

In a step to push businesses into addressing Y2K, GASB and the SEC now require Year 2000 disclosures in financial statements. GASB requires governmental entities to disclose any significant amount of resources committed to making computer systems and equipment critical to operations Year 2000 compliant. GASB also requires governments to report both how the Y2K issue will affect them, and the steps they have taken in order to prepare for the problem.

The SEC is currently reviewing disclosure statements of companies, investment firms and advisors. Because of the inter-connection of the economy, the SEC is concerned that one company's lack of readiness could have adverse consequences on many other companies. The SEC is now requiring these companies and local governments to report on their Y2K status to ensure sufficient information is made available. Some 50,000 states, counties, and municipalities have been required to report Year 2000 compliance costs. Failure of a unit to report how Y2K costs will affect their bond payments could jeopardize their ratings and result in fraud charges.

See LOCAL GOVERNMENTS, back page

HOW ILLINOIS STACKS UP

Preparing for Y2K

Since April 1996, efforts have been underway in Illinois to assess agency readiness for the new millennium in terms of the Year 2000 “bug,” commonly referred to as Y2K. The problem is not actually a bug or virus, but rather an internal problem in determining the current year. The problem was caused when early programmers decided to save memory space, a precious and expensive commodity at that time, by using a two-space format to indicate the year instead of four spaces (e.g., 98 instead of 1998). This embedded space limitation in computer programs and hardware set the stage for a turn-of-the-century crisis when computers will switch to “00” and be unable to recognize the appropriate year. What will actually happen is not known; however, experts believe that if the problem is not remedied, a huge array of electronic systems – from small household appliances with embedded microchips to air traffic control and NASA launch systems — may malfunction, miscalculate or shut down completely.

Of particular importance to Illinois citizens is the ability of service-providing state agencies, those responsible for critical systems affecting health, safety, revenues, etc., to accommodate the date change that will occur in 12 months. The Illinois Year 2000 Technology Task Force is the government entity responsible for coordinating the state’s efforts and tracking agency progress in bringing critical computer systems into Y2K compliance. State agencies and entities, universities, colleges and local governments (see Local Government) were surveyed this year regarding their Y2K compliance. Results of the survey are provided in the November 1998 preliminary report of the task force. As of September 30, 1998, 14 state agencies are 100% compliant and 40 other agencies report varying progress in their compliance efforts. The State Board of Investment and the State Labor and Local Labor Relations are the only two agencies that have not submitted a compliance report to the task force.

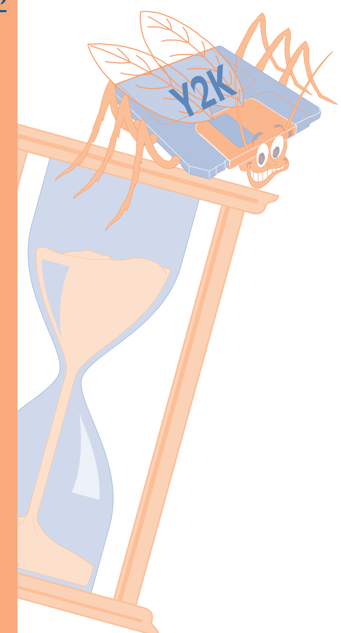
Absent from the preliminary report are details regarding the status of Y2K compliance within the state’s educational system. The situation for Illinois’ K-12 in terms of Y2K compliance is unknown and the task force report directs the State Board of Education to provide compliance reporting to the General Assembly and the Governor. According to the report, the state’s colleges and universities are aware of the problem and are dealing with it; however, the report specifically directs the Board of Higher Education to provide a mechanism for state universities to report their compliance status.

The task force has set completion target dates of January 1, 1999, for critical systems and April 1, 1999 for all other systems in order to allow time for testing. The Auditor General will be including Y2K compliance in his end of fiscal year 1999 audit. The Chicago Tribune reported recently that the price tag for this effort will top $144.4 million with over 700,000 man-hours already expended during the last two years. Persons interested in following the progress of the state’s Y2K readiness process may check the task force’s web site: http://www.state.il.us/cms/y2k.

Y2K Compliance for Selected State Agencies (as of September 30, 1998)

Agency	Percent Complete (9/30/98)
Comptroller	95
Transportation	92
Treasurer	90
State Lottery	90
Professional Regulation	90
Historic Preservation Agency	90
Insurance	80
Commerce and Community Affairs	80
Central Management	80
Agriculture	80
Employment Security	78
State Employees Retirement Sys	75
Public Aid	70
Human Services	65
State Police	63
Office of State Fire Marshal	60
Legislative Information System	60
Environment Protect Agency	59
Nuclear Safety	57*
Public Health	56
IL Student Assistance Comm	50
Corrections	50
Secretary of State	48
IL Industrial Commission	47
IL Emergency Management Agcy	45
Revenue	43
Capital Development Board	43
Children and Family Services	35
IL Commerce Commission	24
Aging	15
Financial Institutions	12

* based on information provided June 1998



Agencies in Full Compliance (as of September 30, 1998)

- Bureau of the Budget
- Civil Service Commision
- E ST Louis Finance Advis Auth
- Human Rights Commission
- IL Farm Development Auth
- IL Law Enforce Train & Stds Bd
- Judicial Inquiry Board
- Labor
- Liquor Commision
- Military Affairs
- Pollution Control Board
- Prairie State 2000 Auth
- Prisoner Review Board
- Racing Board
- State Police Merit Board

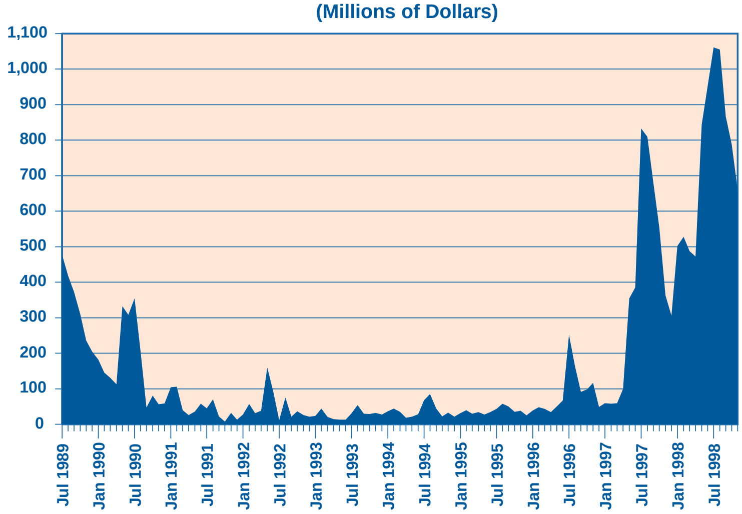
COVER STORY: *continued...*

Rags to Riches...

enues did not decline over this period, but simply fell short of estimates. From 1990 through 1992, actual revenue growth of $1.899 billion (excluding short-term borrowing) fell $878 million short of the $2.777 billion estimated. As the economic downturn that started in fiscal year 1991 stretched into 1992, the budget-makers nightmare came true. That year, General Funds revenue growth fell $500 million below expectations, even with the acceleration of sales tax collections and other revenue enhancement measures.

Unfortunately, spending cuts were unable to keep up with the revenue shortfalls, and the result was a large and rapid deterioration of the state's financial position. Measured on a cash basis, the General Funds budgetary balance fell to a deficit of $887 million by fiscal year 1992. On a GAAP basis (generally accepted accounting principals), the General Funds balance dropped to a $1.656 billion deficit that same year.

General Revenue Fund Average Daily Available Cash Balance (Millions of Dollars)



Another indicator of the severity and duration of the cash shortage is the average daily available cash balance in the General Revenue Fund (the state's main operating fund). Due to the seasonal mismatch between revenue and spending, this indicator normally drops precipitously during the first part of the fiscal year before climbing during the last half of the year. After falling at the start of fiscal year 1991, however, the average failed to rebound later in the year as revenue fell far short of expectations. The result was a growing accumulation of unpaid bills at the Comptroller's Office. The average daily available cash balance remained below $50 million for most of the next five years.

Economic growth finally took hold toward the end of fiscal year 1992, and over the next two years, "base" revenue growth outpaced estimates by $404 million. In fiscal year 1995, the strong economy produced a phenomenal $1.415 billion revenue increase — the largest increase on record and $380 million more than originally expected. This dramatic reversal of fortune provided the extra revenue boost necessary to begin correcting the state's fiscal problems.

That process took two more years. After higher-than-expected revenue growth in 1996 and 1997, the state's General Funds budgetary balance turned positive at the end of fiscal year 1997 for the first time since 1989. Good fortune continued through fiscal year 1998 producing revenue growth of $1.130 billion — the third largest increase on record and $480 million more than estimated when the year began ($80 million of the new revenue came from the cigarette and messages tax increases passed in December 1997 as part of the education funding package). Over the period, the General Revenue Fund average daily available cash balance also improved dramatically, jumping from $43 million in July 1995 to $252 million in July 1996 and to $1.061 billion in July 1998.

The impact of the extraordinary performance of the Illinois economy, as well as better fiscal discipline, is clearly evident in improvements in the state's GAAP financial position. After swelling to a $1.916 billion deficit in fiscal year 1995, the General Funds GAAP deficit shrank to $213 million in fiscal year 1998.

In theory, budgets are based on revenue estimates. That means that if revenues fall short of expectations, spending must be reduced to keep the two in relative balance. Through most of the early 1990s, Illinois was unable to cut spending far enough to catch up to revenue shortfalls. The fact that budget cuts are seldom easy was compounded by court-ordered spending and exploding medical costs. When the cash ran out, Illinois fell back on its standard practice of deferring the payment of Medicaid liabilities as permitted under Section 25 of the State Finance Act, this time with disastrous fiscal consequences.

Changes in Section 25 liabilities (which are essentially the changes in Medicaid liability) have been reflected in the state's GAAP deficit. While the widening of the GAAP deficit in the early 1990s closely matched the growth in deferrals under Section 25, the recent narrowing of that deficit has also tracked closely to the reductions in those deferrals.

What Lies Ahead?

Is Illinois ready for the next bump in the road? As the state prepares to enter the last year of the decade, it

General Funds GAAP Balance and Cash-Basis Budgetary Balance (millions of dollars)

Fiscal Year	GAAP Balance	Budgetary Balance
1986	(261)	(153)
1987	(587)	(319)
1988	(355)	(76)
1989	(74)	148
1990	(557)	(191)
1991	(1,368)	(666)
1992	(1,656)	(887)
1993	(1,916)	(630)
1994	(1,595)	(422)
1995	(1,204)	(341)
1996	(952)	(292)
1997	(451)	45
1998	(213)	356

General Funds Base Revenue Growth Estimated vs Actual (millions of dollars)

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

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

does so with a state budget in excellent shape and riding an economy that has produced extraordinary growth over the last several years. Clearly, there have been financial improvements across a broad spectrum. But in order to continue to improve its fiscal health, the state faces several challenges. To keep balances at acceptable levels and payment cycles under control, resources must continue to be directed to these purposes. The ability to allocate resources will be constrained on the one hand by revenue growth and on the other hand by competing budgetary needs. There is cause for concern on both counts.

On the revenue side, there is concern about the impact of future economic fluctuations and about the ability of the tax base to produce a steady stream of revenue. Illinois' General Funds revenue base is highly susceptible to economic cycles. While the state has benefited over the last several years from revenue growth in excess of expectations, that kind of good fortune can reverse itself quickly. Just as the recent economic growth produced rapid increases in receipts from the personal income, sales, and corporate income taxes, slower economic growth would result in dramatically slower receipt growth in these sources tied most directly to the economy.

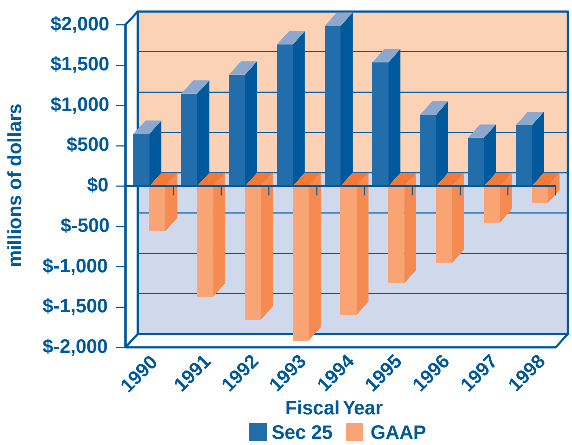
Two of these sources, the sales and corporate income taxes, are also unstable. This is due in part to the basic structure of the taxes. For example, since Illinois does not impose a sales tax on services, sales tax revenues are highly dependent on the consumption of durable goods which, in turn, is related to the health of the economy. In addition, the state's corporate income tax is more accurately a tax on corporate profits, and as such, exhibits huge swings between good years and bad.

Another reason for instability in the tax base is the enactment of tax relief measures (also called tax expenditures). Last year, tax expenditures cost the General Funds an estimated $3.8 billion. Two of the largest also add to the volatility of revenues. The removal of food and drugs from the sales tax base increased its dependence on the consumption of durable goods while the net operating loss deduction from the corporate income tax made this source even more erratic.

The two most recent tax expenditures were effective July 1, 1998 and include a doubling of the personal exemption from the income tax and a change in the method used to apportion corporate income to Illinois. These are phased-in over three years, but when the phase-in is complete, they will reduce the tax base by an estimated $383 million annually.

On the spending side, future budgets will have to address legislatively guaranteed funding increases for education and the state's pension systems. In addition to making room for these guarantees, future budgets will also likely face increased spending demands stemming from an economic downturn. Two programs that are certain to be affected by adverse economic conditions are TANF (Temporary Assistance to Needy Families) and Medicaid. Since the TANF program is new (July 1997), it has yet to be tested across a complete economic cycle. As a result, there is no experience with the program during recession.

Section 25 Liabilities & GAAP Deficits

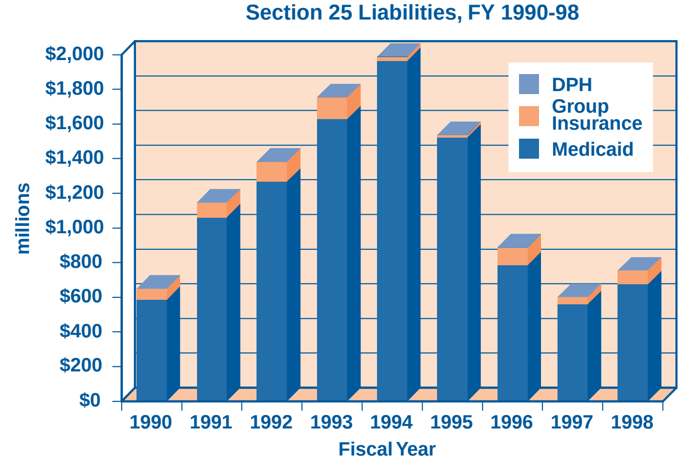


On the other hand, the last ten years provides ample evidence of the potential impact of exploding medical costs. While it appears that medical costs and Section 25 deferred liabilities are largely under control, continued efforts will be required to keep deferrals from again becoming a budgetary black hole. This is particularly important given last year's increase in deferrals after three consecutive years of decline.

One of the keys to future budgets will be how the state deals with its current budgetary surplus. Illinois has had budgetary surpluses in the past, but surpluses have been temporary phenomena, evaporating as quickly as they have appeared. In fact, over the last 22 years, there have been budgetary surplus only 4 other times. And each time within two years, the state was in serious financial shape due to the economy and the budgetary practices of state government. While economic cycles are largely beyond the influence of state government, taxing and spending decisions are not. Although economic cycles can be long, and their impact dramatic, they seldom permanently change the fiscal landscape. Fiscal policy decisions, however, have tended to have much more pronounced long-term impacts. Tax relief efforts of the 1970's and 1980's, for example, permanently reduced the state's tax base, usually at the most inopportune times. Likewise, spending decisions, only some of which have been dictated by the courts or the federal government, have permanently increased the state's spending base.

Over the years, this combination of reduced tax base, increased spending base, and the ever-present economic cycle have resulted in feast or famine budgets. During the feast, there is enough for everybody. But during the famine, Illinois has resorted to a variety of tactics to get back on track — temporary tax increases, permanent tax increases, inter-fund borrowing, inter-fund transfers, short-term borrowing, and extended payment delays. These experiences make it increasingly important that any surplus be examined carefully before deciding how to use it.

Section 25 Liabilities, FY 1990-98



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CENTERPIECE

An Overview of the Illinois Economy

Employment Trends

Illinois came out of the economic crisis of the 1980's with many innovative businesses strengthened from dealing with adverse economic conditions. Proof can be found in the sterling performance of the Illinois economy over the past ten years. During the 1990's the Illinois unemployment rate peaked at an 8.0 percent average during the mild recession in fiscal year 1992. Following the recession, the average Illinois unemployment rate dropped below 6 percent in fiscal year 1995 and averaged 4.9 percent in fiscal year 1997 followed by 4.6 percent in fiscal year 1998. After exceeding the U.S. unemployment rate for 15 consecutive years, the Illinois unemployment rate has fallen below the national rate for each of the past four fiscal years.

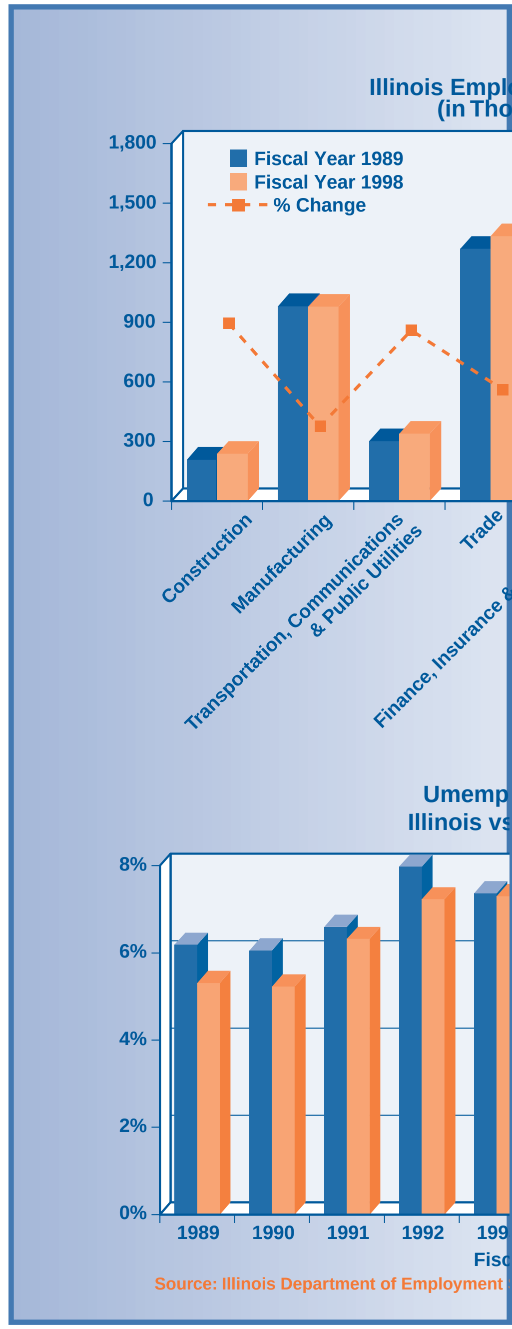
Requisite for a strong economy is healthy job growth to provide employment for new entrants to the labor market. Over the past ten years, Illinois has created 661 thousand new jobs, mostly in the service sector. This is a diverse segment whose major components include health care, business services such as advertising and temporary help, personal services such as dry cleaners and barbers, the lodging industry, private education, and social services including child care. Service industry employment increased 35.0 percent between fiscal year 1989 and fiscal year 1998 and its 444 thousand-job increase accounted for 67 percent of Illinois' employment increase during the period.

Employment grew at more modest rates in the other sectors of the Illinois economy. The only other sectors with double-digit job increases were the construction industry, where employment increased 14.4 percent from 209 thousand jobs in fiscal year 1989 to 239 thousand jobs in fiscal year 1998; and transportation, communications, and public utilities where employment increased 12.6 percent from 302 thousand jobs in fiscal year 1989 to 340 thousand in fiscal year 1998.

The exception to the overall increase in employment is the manufacturing sector. Employment trends demonstrate a continuing shift in jobs from manufacturing to services. Whereas the manufacturing share of employment decreased from 19 percent to 17 percent between fiscal year 1989 and fiscal year 1998, the service share increased from 25 percent to 29 percent during the period. In fiscal year 1998, 23 percent of employment was in wholesale and retail trade, 14 percent in government, 7 percent in finance, insurance, and real estate, 6 percent in transportation, communications, and public utilities, and 4 percent in construction.

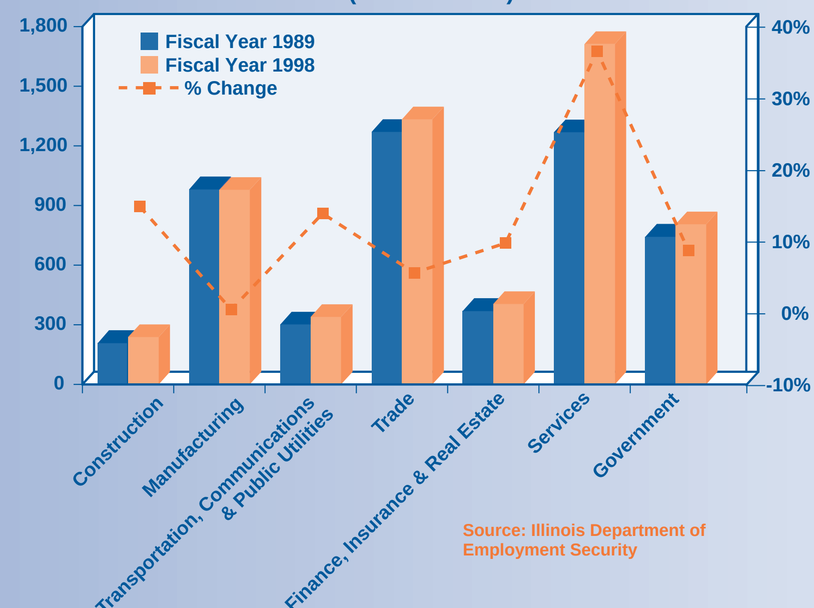
Illinois manufacturing industries averaged 979 thousand employees in fiscal year 1998, down 3 thousand employees from their fiscal year 1989 level. The best measure of manufacturing production in our area, the Chicago Federal Reserve Bank Midwest Manufacturing Index (MMI) indicates significant growth in manufacturing output in our region over the past ten years. Between June 1989 and June 1998, the MMI indicates that there was a 31 percent increase in Midwest manufacturing output. Therefore it appears that this employment loss reflects the impact of higher productivity and the increased use of temporary workers (who are counted in the service sector).

The jobs created during the 1990's were largely new jobs as the mild recession of the early 1990's entailed minimal job losses. During the prior recession of the early 1980's, average Illinois nonagricultural employment declined by 370 thousand jobs or 7.6 percent between fiscal years 1980 and



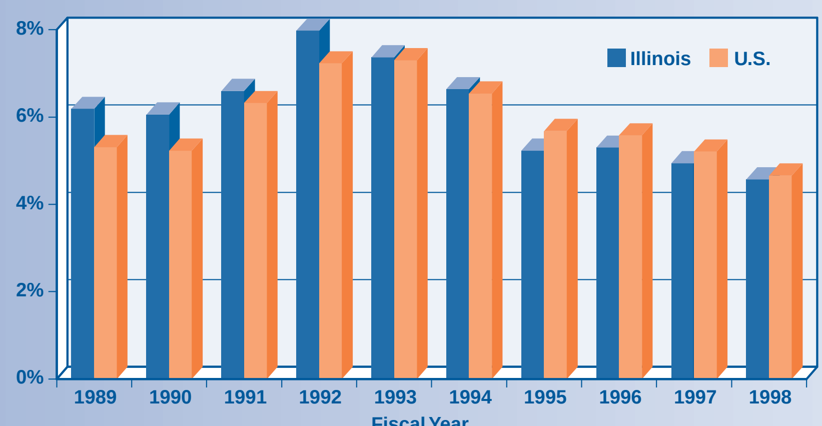
CENTERPIECE

Illinois Employment Trends (in Thousands)

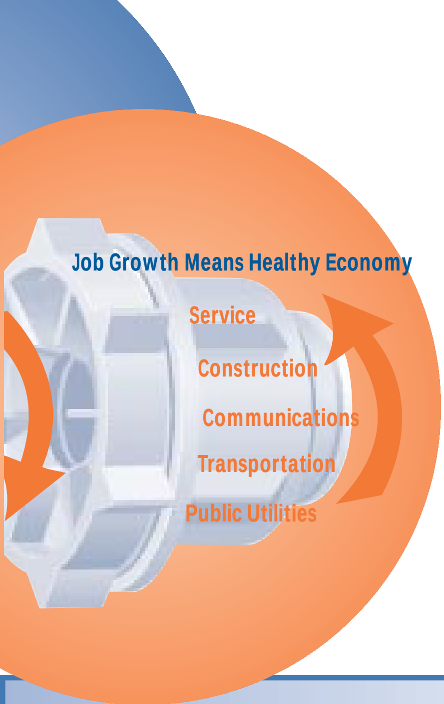


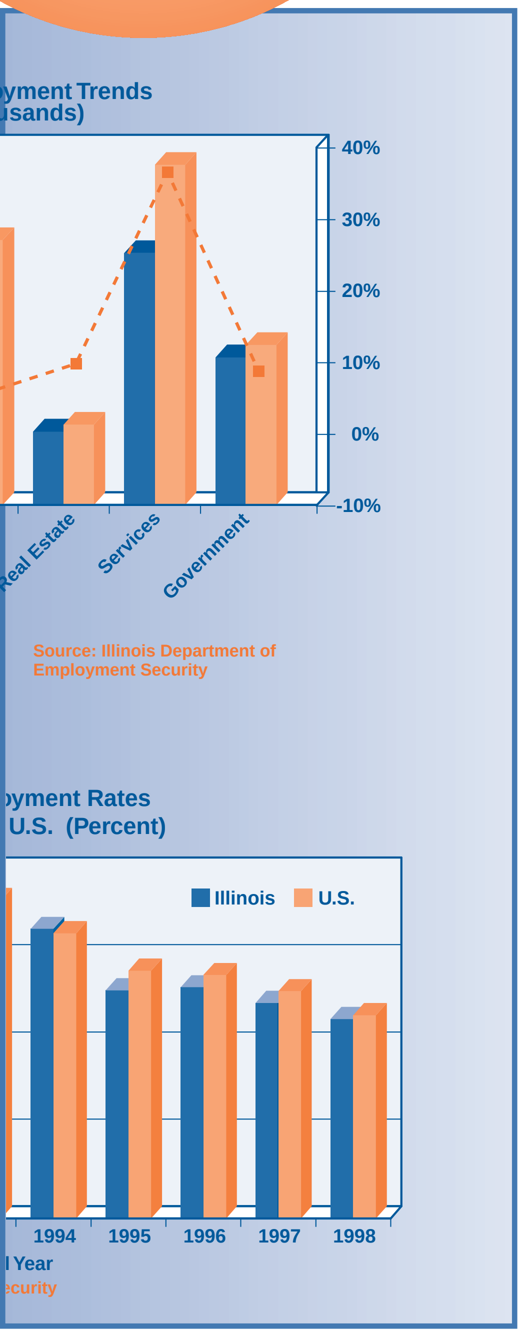
Source: Illinois Department of Employment Security

Umemployment Rates Illinois vs. U.S. (Percent)



Source: Illinois Department of Employment Security





1983 as the Illinois unemployment rate rose to a 12.3 percent peak in fiscal year 1983. In contrast, there was only a 55 thousand or 1.0 percent job loss during the brief recession that took place in fiscal year 1992.

Income Trends

After a brief downturn in real personal income during fiscal year 1991, Illinois has experienced seven consecutive years of growth. Between fiscal year 1989 and fiscal year 1998, real personal income increased 18.6 percent allowing Illinois to continue to be one of the nation's wealthiest states. For fiscal year 1998, per capita personal income in Illinois was $28,609. This was $2,674 or 10 percent greater than the average national per capita income of $25,935.

Another contributor to its relatively high level of per capita personal income is Illinois' low poverty rate (the percentage of individuals living in households with incomes below the poverty level). Although 1 in 9 Illinoisans live in poverty, the 11.6 percent Illinois rate (Census Bureau estimates for 1996 and 1997) is almost 2 percent below the 13.5 percent national rate.

Concerns for the Future

Recent economic success does not guarantee future economic growth. The Illinois economy is too dependent on economic conditions in the rest of the United States and around the world to not suffer from difficulties faced by our trading partners. Economic problems in Asia, Russia, and portions of Latin America have already started to affect Illinois industries whose products are sold on world markets or who face low priced Asian competitors.

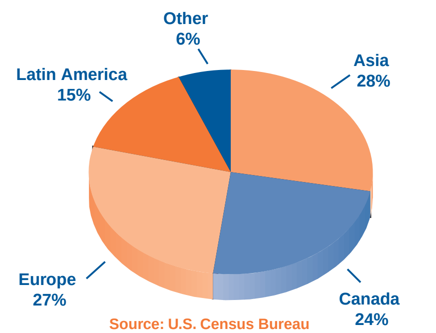
The Illinois economy has numerous and growing interconnections with markets around the World. Between 1987 and 1997, the value of goods exported by Illinois companies increased 235 percent to $34.2 billion, ranking fifth among the states. Nationally exports increased 181 percent during that period.

In line with the increased interest in exporting, the U.S. economy has become much more open to imports. Import data is not available for states, but nationally imports of goods increased 114 percent between 1987 and 1997 and exceeded the value of exports each year.

A geographic breakdown of the export data shows the diversity of regions buying Illinois products and the importance to Illinois of troubled Asian export markets. Three regions each received over 20 percent of the exports attributed to Illinois. Asia leads all buyers, receiving 28 percent of exports, followed by Europe with 27 percent and Canada with 24 percent.

A study of Illinois exports found that industrial machinery - including

Where Illinois Exported in 1997



Source: U.S. Census Bureau

construction machinery - accounted for 26.5 percent of the value of exports attributed to Illinois in 1997. Other major export industries were electronic and electric equipment, chemicals, and transportation equipment. Illinois' strength in durable equipment leaves it vulnerable to problems in export markets, as many of these products are items whose purchase can be deferred during a time of crisis.

One way a country can try to deal with economic adversity is to attempt to export its way to recovery, countering weak domestic demand for its products with attempts to increase foreign sales. Unfortunately, this process often just serves to spread the recession to the country's trading partners. For example, the U.S. steel industry, which has historically been centered in the Midwest, is facing a worldwide assault on its home market from countries facing significant over capacity in their steel industries. Third quarter imports of steel mill products to the U.S. were up 56 percent from the prior year. Imports increased sixfold from Australia and Indonesia, tripled from Japan and South Africa, and more than doubled from Russia, Korea, the Ukraine, and China. Although cheap imports can help companies that use steel, they are causing serious problems for U.S. steel companies and their employees.

See CENTERPIECE , page 14

Focus on Revenue

General Funds Revenue Growth Third-Highest on Record

General Funds revenues for fiscal year 1998 increased by $1.130 billion, representing the third-highest annual growth in revenues. Trailing only fiscal year 1995 ($1.416 billion) and fiscal year 1984 ($1.370 billion), this 6.0% growth was due primarily to the continued strength of the economy. The economic-driven revenue sources of income and sales taxes accounted for 92.1% of the revenue increase.

State sources increased $1.075 billion, led by a $759 million surge in income tax revenues. Individual income taxes were up $708 million (11.5%) and corporate income taxes rose $51 million (4.7%). Comparison to the prior year is affected by changes to the percentages of income taxes deposited into the Income Tax Refund Fund. For fiscal year 1998, the percentages for both individual and corporate were reduced. Adjusting for changes in the refund rates, individual income tax receipts grew 10.9% and corporate income tax receipts grew 3.0%. During the same period, the fiscal year 1998 unemployment rate in Illinois fell to 4.6% as wage and salary income increased 6.5%. Also, the strong performance of the stock market resulted in increased capital gains and dividend income. Obviously, these economic factors had a major impact on income and the growth in individual income taxes.

Revenues from the state sales tax totaled $5.274 billion in fiscal year 1998. This represents an increase of $282 million or 5.6% and reflects the continued strength in retail sales for the year.

While receipts from other sources increased $42 million or 1.8% for the year, there were fluctuations in the various sources. The two largest sources under this group were impacted by tax changes that only applied to the last half of the fiscal year. Public utility taxes grew 4.5% due to an increase in the telecommunications tax. Cigarette receipts were up 15.3% due a tax increase and a change in the allocation to the General Funds from $25 million a month to $33.3 million. Inheritance tax receipts increased $51 million and investment income grew $38 million or 26.4% as a result of higher balances.

These increases were offset by declines of $99 million in intergovernmental transfer payments from Cook County. This decrease was due to the timing of deposits in fiscal year 1997. In addition, a recent court ruling invalidating the insurance privilege tax caused a $55 million decrease in insurance taxes and fees.

Transfers-in from other funds decreased by $8 million, led by declines in gambling revenues. Lottery transfers fell by $30 million and riverboat gaming transfers declined $15 million, due to a restructuring of the tax. The declines in gambling transfers were offset in part by a $37 million increase in other transfers, including the Build Illinois Fund ($13 million) and the Warrant Escheat Fund ($10 million).

Other sources and transfers-in accounted for 17.0% of General Funds revenues in fiscal year 1998. With the exception of public utility taxes, these revenues are fairly stagnant and impacted primarily by legislative changes. Since federal sources increased only 1.7% in fiscal year 1998, the percentage of total revenues fell to 16.6%. Therefore, income and sales taxes accounted for 66.4% of total General Funds revenues for the year.

Some revenues will almost certainly show improvement in fiscal year 1999. Public utility and cigarette taxes, with a full year impacted by tax increases, and the new insurance privilege tax should restore revenue to prior levels. Nevertheless, it is the economy-driven sources that have the greatest impact on the state's financial condition, and it is the economy that will continue to determine the state's fiscal health in the future.

GENERAL FUNDS REVENUES
(millions)

	Fiscal Year 1997	Fiscal Year 1998	Change Amount	Change Percent
Cash Receipts:				
Income Taxes				
Individual	$ 6,139	$ 6,847	$ 708	11.5 %
Corporate	1,085	1,136	51	4.7
Total, Income Taxes	7,224	7,983	759	10.5
Sales Taxes	4,992	5,274	282	5.6
Other Sources				
Public Utility Taxes	873	912	39	4.5
Cigarette Taxes	300	346	46	15.3
Inheritance Tax	199	250	51	25.6
Investment Income	144	182	38	26.4
Cook County IGT	251	152	-99	-39.4
Corporate Franchise	121	118	-3	-2.5
Insurance Tax & Fees	146	91	-55	-37.7
Liquor Gallonage Taxes	57	58	1	1.8
All Other	194	218	24	12.4
Total, Other Sources	2,285	2,327	42	1.8
Total, Cash Receipts	14,501	15,584	1,083	7.5
Transfers In:				
Lottery Fund	590	560	-30	-5.1
Gaming Fund	185	170	-15	-8.1
All Other Funds	309	346	37	12.0
Total, Transfers In	1,084	1,076	-8	-0.7
Total, State Sources	15,585	16,660	1,075	6.9
Federal Sources	3,269	3,324	55	1.7
Total Revenues	$ 18,854	$ 19,984	$ 1,130	6.0 %

Focus on Spending

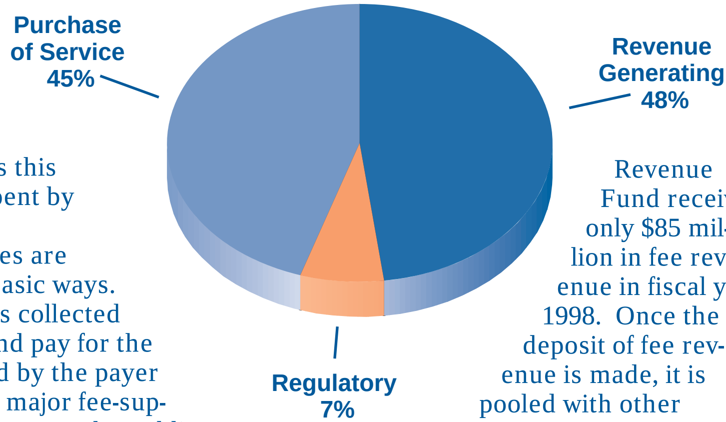
How Are We Spending Fee Revenues?

A resident of Illinois has to pay a fee to go camping, to receive their driver's license, or to obtain a license for certain occupations. In fact, there were 2,154 separate fees collected by various agents of state government in fiscal year 1998. Fee revenues from fiscal year 1998 totaled $2.683 billion, $73 million or 2.8%, higher than the previous year. If viewed as a single combined source, fee revenue would be the fourth-largest state revenue source. This raises the question: how is this money being spent by the state?

Fee revenues are spent in three basic ways. Some of the fees collected are user fees, and pay for the service received by the payer of the fee. Two major fee-supported enterprises are the public university and toll highway systems, which received combined fee revenues of almost $1.1 billion. User fees can cover state services such as state parks, veteran's homes, and services provided by the state police. A program is self-supporting when the only source of funds available to the administering agency are fees and other program income. The toll highway system and the State Fair are examples of such enterprises. In fiscal year 1998, $1.212 billion or 45% of total fees were deposited into funds that paid for fee related services.

Some fees are called revenue-generating fees and are either spent on programs that do not directly benefit the fee payer or are spent from a fund that supports a wide range of responsibilities. One example of this type of fee is the Medicaid assessment funds, which includes the county Hospital Services Fund, Long Term Care Provider Fund, Care Provider Fund for Persons with Developmental Disability, and Hospital Provider Fund. Another prominent example of revenue-generating fees are the Road Fund and State Construction Account Fund. The most prominent fund, with a range of payments so broad as to make it impossible to link revenues to expenditures, is the General Revenue Fund. The General Revenue Fund received only $85 million in fee revenue in fiscal year 1998. Once the deposit of fee revenue is made, it is pooled with other monies and is available for the numerous appropriations charged against the fund. Thus, there is little connection between fee collections and spending from the fund. Other revenue generating fees also have this distinction because payments from the fund that received the fees neither paid for a service, nor regulated those paying the fee. An example of this type of fee are the fees collected by the Treasurer from court fine surcharges, which are used for numerous functions including drug traffic prevention and violent crime victims assistance. Revenue generating fees accounted for $1.284 billion or 48% of the total fee collection in fiscal year 1998.

Use of Fiscal Year 1998 Fee Revenues

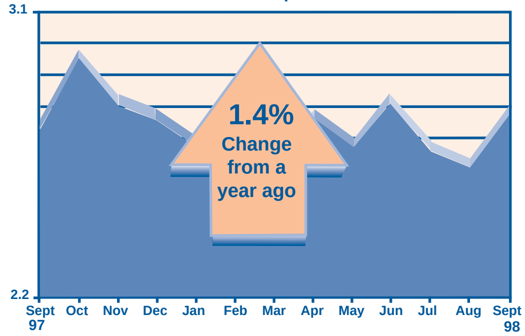


The third way that fees are spent is to support state regulation of the fee payer. Although this accounts for only $187 million or 7% of the revenue from fees, these moneys support a significant portion of the budgets of the state agencies charged with business and occupational licensing and regulation in Illinois. Regulation can be simply collecting a fee and maintaining a list of licensees or regulation may involve examining applicants, investigating complaints, and disciplining licensees who fail to meet prescribed standards. The Departments of Professional Regulation, Nuclear Safety, Insurance, and Banks, Real Estate and the Liquor Control Commission all collected fees which account for all or most of the agency's spending. As shown in a study in the fiscal year 1996 Fee imposition report, there is a growing emphasis on the use of fees to pay for regulatory operations, and a shift away from the General Revenue Fund as a primary source of funding. On the other hand, at regulating agencies such as the Environmental Protection Agency, Departments of Labor, Public Health and Agriculture, less than 30% of the agency's operations are covered by fee revenues.

Fees are paid daily for numerous and varied functions. As a single funding source, they play an important role in the state's financial picture. It is vital to understand how these fee revenues are collected and spent. For more information on fee revenues, see the 1998 Fee Imposition report, available in print or at the Comptroller's website: www.ioc.state.il.us .

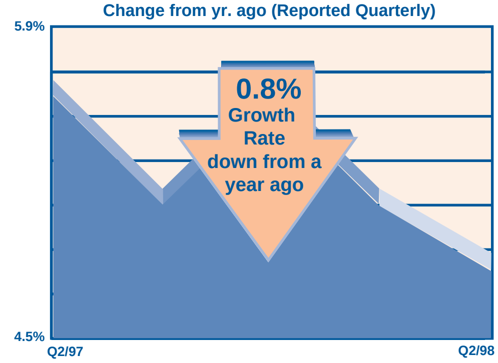
ILLINOIS STATS: Economic and Financial

Illinois Direct Exports – billions

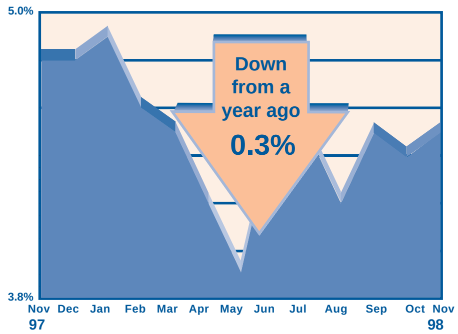


The Illinois unemployment rate was 4.5% in November, 0.1% greater than the October Illinois rate and November national rate and 0.3% below its year earlier level. The Illinois unemployment rate has been below 5% for twenty-two consecutive months. Inflation also remained low with the November U.S. CPI only 1.5% greater than its year earlier level. Other indicators provided mixed signals about the direction of the economy. The Chicago Purchasing Managers Index (50.2 in November) was at the 50 level that indicates equal numbers of reports of increasing economic activity and decreasing activity. On the negative side, October average manufacturing hours were down, while November new claims for unemployment insurance were up from their prior year levels. On the positive side, September exports and October housing permits were both up from their prior year levels.

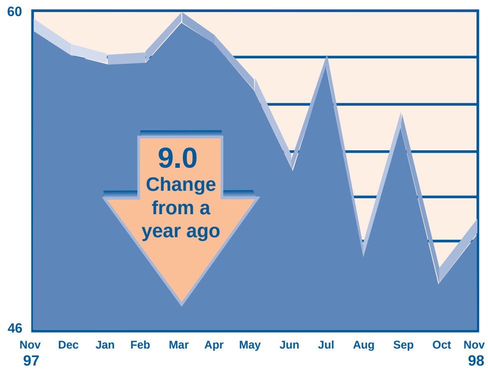
Illinois Personal Income
Change from yr. ago (Reported Quarterly)



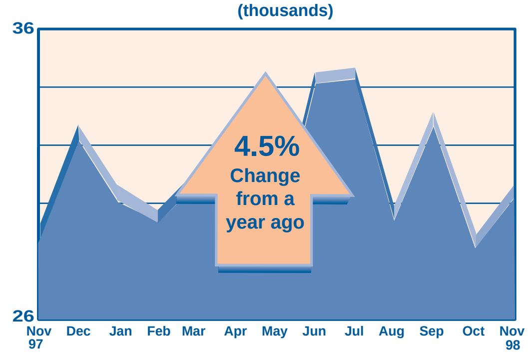
Illinois Unemployment Rate



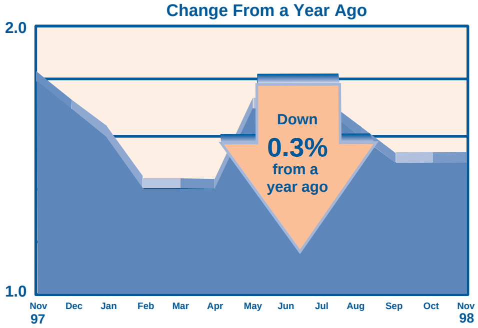
Chicago Purchasing Managers Index



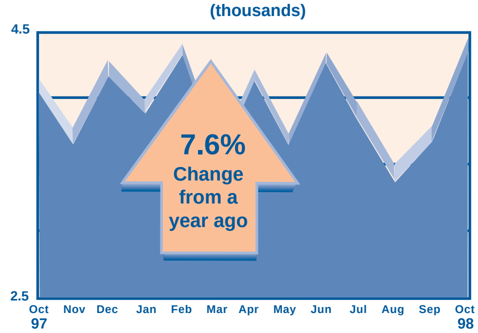
New Claims Unemployment Insurance
(thousands)



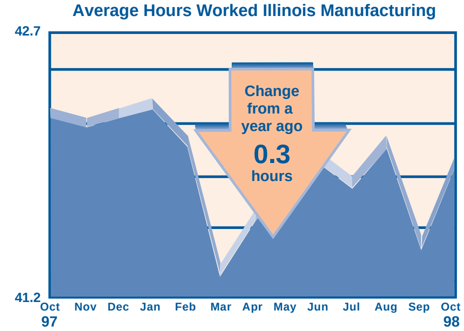
Inflation Rate
Change From a Year Ago

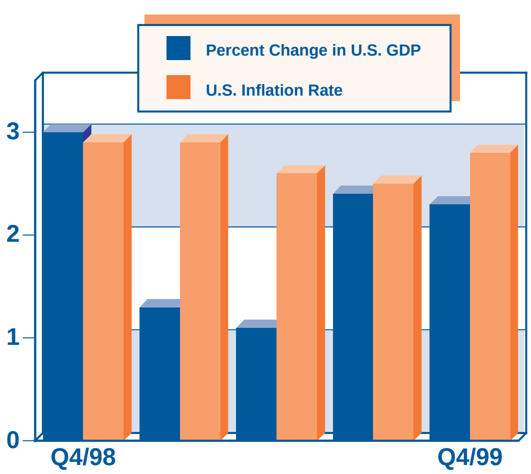


Illinois Housing Permits
(thousands)



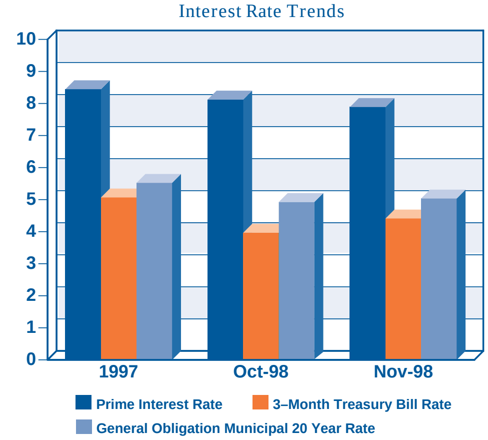
Average Hours Worked Illinois Manufacturing





The latest DRI/McGraw-Hill economic forecast expects a slowdown in the growth rate for the U.S. economy during the first part of 1999. The growth rate for the U.S. economy is forecast to decline from a 3.0% rate during the final quarter of 1998 to 1.3% and 1.1% rates during the first half of 1999. Growth rates are expected to improve during the second half of the year. Slower economic growth and competition from lower priced Asian goods will help keep inflation under control as the inflation rate is forecast to remain below 3% throughout calendar 1998 and 1999.

Interest Rate Trends



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 Managers Index

DRI/McGraw-Hill:
Economic Forecasts

Federal Reserve System:
Interest Rates

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

String of Record End-of-Month Balances Reaches 19!

For the nineteenth consecutive month, the General Funds end-of-month balance set a record when compared to the same month in previous fiscal years. The $770 million balance at the end of December is $277 million or 56.2% higher than last year. The continuation of impressive revenue performance continues to bolster the fiscal stability of the General Funds. December marks only the second time that revenues have topped the two billion dollar mark for a given month and the first time that expenditures have exceeded the two billion dollar threshold.

General Funds Revenues Through Six Months - Up 8.9%

Through six months of fiscal year 1999, General Funds revenues totaled $10.312 billion, $842 million or 8.9% higher than last year. Personal income taxes along with sales taxes receipts and federal source revenues accounted for two-thirds of the increase in revenues. Compared to the first six months of fiscal year 1998, personal income taxes are up $196 million or 6.8% while sales taxes are up $131 million or 4.9% and federal revenues are up $229 million or 12.9%.

Other sources contributing to the revenue increase over last fiscal year include cigarette taxes (up $53 million or 35.3%), State Gaming Fund transfers from riverboat gambling proceeds (up $56 million or 63.6%), insurance taxes and fees (up $64 million or 136.2%), and Cook County Intergovernmental transfers (up $40 million or 37.4%). The increase in cigarette tax receipts is due to a tax rate increase while insurance taxes and fees and riverboat gambling taxes are both due to rate restructuring.

Despite the increase in nearly every major source of revenue to the General Funds, it is the decline in two major sources of revenue that may be most noteworthy. Corporate income tax receipts for the first six months of fiscal year 1999 are down $14 million or 3.1% and Lottery Fund transfers are down $26 million or 10.6%.

General Funds Spending Up 9.8% Through Six Months

After six months, General Funds cash expenditures totaled $10.744 billion, $961 million or 9.8% higher than last year. For the year, total spending exceeds revenues by $432 million resulting in a drop in the available cash balance from $1.202 billion at the beginning of the fiscal year to $770 million at the end of December.

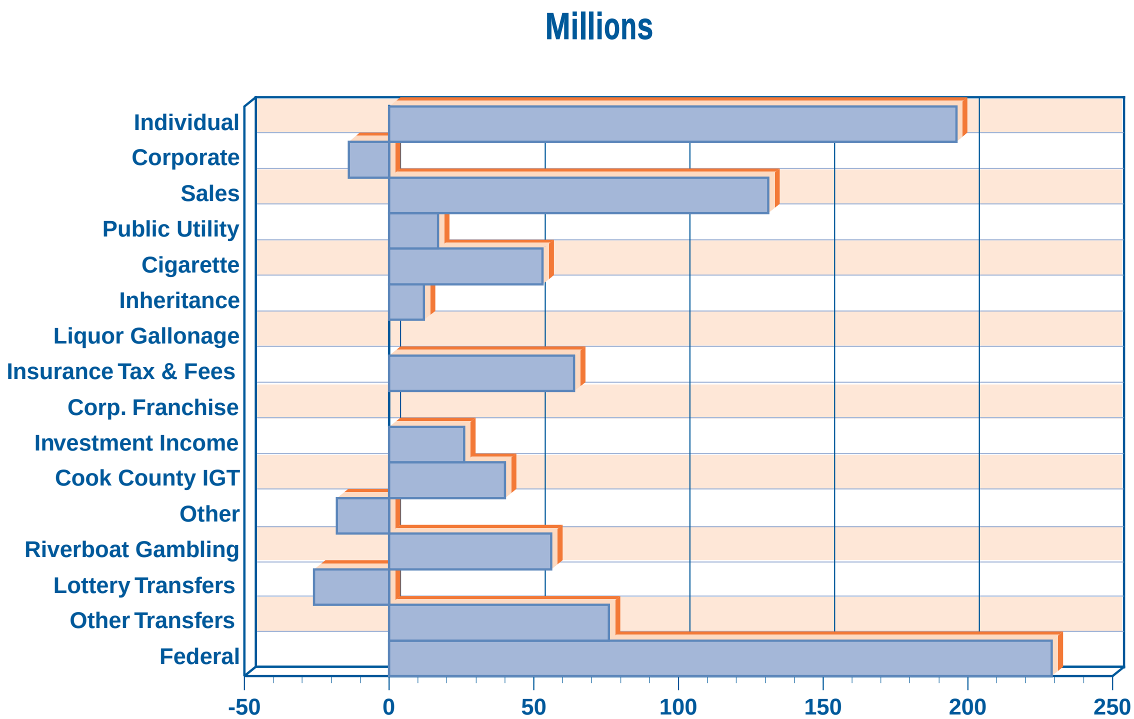
Compared to last fiscal year, total grant spending from the General Funds has increased by $686 million or 11.0%. Awards and grants spending by the Department of Human Services is up $250 million or 23.7%, accounting for more than one-quarter (26.0%) of the increase in total spending and more than one-third (36.4%) 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 $250 million increase in grant spending by Human Services, $184 million is for lapse period spending occurring in fiscal year 1999 against fiscal year 1998 appropriations.

Other increases in grant spending include Higher Education (up $111 million or 36.8%), State Board of Education (up $99 million or 4.9%), Teacher's Retirement (up $88 million or 40.9%), and the Department of Public Aid (up $82 million or 4.2%).

Spending for operations of $2.944 billion is $238 million or 8.8% higher than comparable expenditures last year. Higher education operations are up 11.7% or $87 million, while all other operations increased $151 million or 7.7%.

Overall, the General Funds financial position appears sound through the first six months of fiscal year 1999. Balances are running ahead of last year, and with the exception of corporate income taxes and lottery transfers, other sources of revenue to the General Funds are performing at or above expectations. On the spending side, the General Funds currently have nearly $667 million more of unexpended appropriations than at this time last year. While the General Funds outlook for the remainder of the fiscal year is still positive, the level of unexpended appropriations and the decline in corporate income taxes bear close scrutiny.

REVENUES: Year-To-Date Changes From Prior Year



Centerpiece continued from page 9

Global economic difficulties also lead to lower prices for goods traded on world markets. Illinois benefits when products that are experiencing falling prices are not produced locally. Thus lower gasoline prices resulting from the drop in the price of imported petroleum increase the income Illinoisans have available to spend on other items, lowering the rate of inflation. The state's strong domestic economy also allows sectors that are shielded from foreign markets to continue to prosper.

However, the Illinois economy suffers when the products we produce and trade experience falling prices as a result of the world economic slowdown. In particular, depressed corn and soybean prices, due in large part to dwindling demand from East Asia, are putting financial stress on the Illinois farm sector. Illinois ranked third in agricultural export sales in 1997, with total agricultural exports valued at $3.7 billion. Specialization in corn and soybean production is reflected in Illinois' rank as the second largest exporter of each crop. After a few good years, farmers should be able to withstand this year's low prices, but some could falter if there is no future revival of weak product prices.

Weakness in one sector of the economy normally has a multiplier effect on other sectors. For example, falling farm income is reducing the demand for farm equipment and leading to cutbacks in this industry. What is unusual about the current economic situation is that problems in the world trade-related sectors of the economy have not spread. Consumption spending, including housing purchases, remains strong. The best measure of Illinois consumption spending is state sales tax collections, which increased 5.7 percent in fiscal year 1998 and were up 5.1 percent through the first five months of fiscal year 1999. Illinois building permits were down 5.4 percent in fiscal year 1998 but were little changed from the levels for fiscal years 1994 and 1995. With declining interest rates, Illinois building permits are up 1.8 percent through the first four months of fiscal year 1999.

World economic problems have followed a domino pattern with a financial crisis in Thailand spreading throughout Asia and then to Russia and now threatening Latin America. While falling commodity prices and weakening foreign trade have had an impact on Illinois manufacturing and agriculture, overall economic activity has continued in an upward direction. The economic question for 1999 is whether the world can remain separated into two components, one in recession and the other prospering. If not, will the Asian recession spread to the rest of the world or will strong exports to Europe and North America become the starting point for an Asian economic recovery?

GENERAL FUNDS TRANSACTIONS
($ In Millions)

	December 1997	December 1998	Change	Six Months FY 1998	Six Months FY 1999	Change Amount	Change Percent
AVAILABLE BALANCE, BEGINNING	$ 416	$ 777	$ 361	$ 806	$ 1,202	$ 396	49.1 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 554	$ 607	$ 53	$ 2,875	$ 3,071	$ 196	6.8 %
Corporate	158	163	5	455	441	-14	-3.1
Total, Income Taxes	712	770	58	3,330	3,512	182	5.5
Sales Taxes	513	532	19	2,700	2,831	131	4.9
Other Sources:							
Public Utility Taxes	90	88	-2	447	464	17	3.8
Cigarette Taxes.	25	33	8	150	203	53	35.3
Inheritance Tax (gross)	10	11	1	114	126	12	10.5
Liquor Gallonage Taxes	6	5	-1	30	30	0	0.0
Insurance Tax and Fees	18	40	22	47	111	64	136.2
Corporation Franchise Tax and Fees	13	10	-3	57	57	0	0.0
Investment Income	16	16	0	92	118	26	28.3
Cook County IGT	0	0	0	107	147	40	37.4
Other	38	18	-20	121	103	-18	-14.9
Total, Other Sources	216	221	5	1,165	1,359	194	16.7
Total, Cash Receipts	$ 1,441	$ 1,523	$ 82	$ 7,195	$ 7,702	$ 507	7.0 %
Transfers In:							
Lottery Fund	$ 49	$ 46	$ -3	$ 245	$ 219	$ -26	-10.6 %
State Gaming Fund	13	25	12	88	144	56	63.6
Protest Fund	1	3	2	2	9	7	350.0
Other Funds	17	48	31	166	235	69	41.6
Total, Transfers In	$ 80	$ 122	$ 42	$ 501	$ 607	$ 106	21.2 %
Total, State Sources	$ 1,521	$ 1,645	$ 124	$ 7,696	$ 8,309	$ 613	8.0 %
Federal Sources:							
Cash Receipts	$ 333	$ 355	$ 22	$ 1,738	$ 1,897	$ 159	9.1 %
Transfers In	18	17	-1	36	106	70	194.4
Total, Federal Sources	$ 351	$ 372	$ 21	$ 1,774	$ 2,003	$ 229	12.9 %
Total, Revenues	$ 1,872	$ 2,017	$ 145	$ 9,470	$ 10,312	$ 842	8.9 %
Expenditures:							
Awards and Grants:							
State Board of Education	$ 420	$ 464	$ 44	$ 2,022	$ 2,121	$ 99	4.9 %
Public Aid	393	418	25	1,966	2,048	82	4.2
Human Services	206	215	9	1,054	1,304	250	23.7
Teachers Retirement	36	46	10	215	303	88	40.9
Higher Education	38	96	58	302	413	111	36.8
All Other Grants	89	124	35	672	728	56	8.3
Total, Awards and Grants	1,182	1,363	181	6,231	6,917	686	11.0
Operations:							
Other Agencies	323	353	30	1,964	2,115	151	7.7
Higher Education	122	149	27	742	829	87	11.7
Total, Operations	445	502	57	2,706	2,944	238	8.8
Transfers Out	126	133	7	849	847	-2	-0.2
All Other (Includes Prior Year Adjustments)	4	4	0	17	19	2	11.8
Total, Expenditures	$ 1,757	$ 2,002	$ 245	$ 9,803	$ 10,727	$ 924	9.4 %
Adjustment for Vouchers Payable	38	22	-16	-20	17	37	N/A
Total, Cash Expenditures	1,795	2,024	229	9,783	10,744	961	9.8
AVAILABLE CASH BALANCE, ENDING	$ 493	$ 770	$ 277	$ 493	$ 770	$ 277	56.2 %

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It is easy to get used to the kind of fiscal flexibility afforded by the current economic environment. But the good fortune will not last forever. Actions that reduce the state's revenue base or permanently raise the spending base must be taken with caution. Because such actions have a cumulative effect, it will not necessarily take a recession to push Illinois over the financial edge. It may only take a period of slower economic growth accompanied by slower revenue growth. As one Connecticut budget official put it, 'The view from Niagara falls is best just before you go over the edge."

Local Governments

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In their November 1998 draft report, the Illinois Task Force suggests that local governments take a greater interest in the Y2K problem, and take whatever action may be necessary to ensure the integrity of their computer-based systems. The report also suggests that state government become more involved in bringing Y2K issues to the attention of local governments and encouraging them to take steps to remedy their problems.

The Comptroller's Office has made a concerted effort to help local governments address their millennium bug problems by publishing a comprehensive Y2K guidebook, *About Time: Managing the Y2K Problem in Local Government*. This user-friendly guidebook was designed to help local governments in devising and implementing plans for solving their Y2K problems. The guidebook offers step-by-step procedures to assist in many areas of local government operations, including risk management, project planning, upgrading or systems planning, and provides resources for getting additional assistance. To date over 400 requests have been received for the guidebook. The guide can be requested by contacting the Office of the Comptroller's Local Government Affairs Division at (312) 814-2451 or can be downloaded from the Comptroller's web site at http://www.comptroller.state.il.us.

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location to Illinois or for the introduction of new products or services that would create substantial employment. The balance of these loans was $20.6 million at June 30, 1998. Of that amount, $12 million was classified as long-term, and $4.5 million was deemed uncollectible.

In addition to making loans to businesses and local governments, the State also provides financing to port districts. These loans, administered by the Capital Development Board, have financed the construction of cargo handling facilities at the Illinois International Port District and the Tri-City Port District. The port district loans outstanding at June 20, 1998 were $15.5 million, with $15 million in uncollectible receivables, and $500 thousand as long-term.

Overall, the State's loans and notes receivable appear to be of good quality, with only 2.4 percent of the gross balance estimated to be not collectible. On an individual basis, collectibility varies depending on the type of loan and risk involved. For example, the DCCA business loans are estimated to be 37 percent uncollectible. ISAC has certain student loans that are 100 percent guaranteed by certain guarantors, but the agency also has other scholarship loans that are estimated to be 90 percent uncollectible. This illustrates that while the state has generally been conservative in its lending practices, certain types of loans must be carefully managed.

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