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GOVERNOR'S OFFICE OF  
MANAGEMENT AND BUDGET

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## **FISCAL YEAR 2005 FIRST QUARTER FINANCIAL REVIEW**

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**Table I**  
**OPERATING HIGHLIGHTS\***  
**First Quarter**  
**FY2004 vs. FY2005**  
(in millions)

	<u>FY 04</u>	<u>FY 05</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATIONS</b>				
General Funds Revenues	\$ 5,629	\$ 5,954	\$ 325	5.8%
Operating Transfers In **	\$ 419	\$ 604	\$ 185	44.2%
Total Revenues and Operating Transfers In	\$ 6,048	\$ 6,558	\$ 510	8.4%
Pension Obligation Reimbursement Transfers	\$ 521	\$ -	\$ (521)	-100.0%
<b>Total Operating Receipts</b>	<b>\$ 6,569</b>	<b>\$ 6,558</b>	<b>\$ (11)</b>	<b>-0.2%</b>
General Funds Expenditures	\$ 6,324	\$ 5,032	\$ (1,292)	-20.4%
Operating Transfers Out	\$ 469	\$ 1,416	\$ 947	201.9%
<b>Total Operating Disbursements</b>	<b>\$ 6,793</b>	<b>\$ 6,448</b>	<b>\$ (345)</b>	<b>-5.1%</b>
<b>Cash Basis Operating Surplus/(Deficit)</b>	<b>\$ (224)</b>	<b>\$ 110</b>	<b>\$ 334</b>	<b>N/A</b>

\* Refer to Appendix I for details.

\*\* FY2004 Operating Transfers In excludes \$144 million budgeted for June 2003 that did not occur until July 1, 2003.

### **REVENUES AND OPERATING TRANSFERS IN**

As illustrated in Table I and detailed in Appendix I, Revenues and Operating Transfers In for the first quarter of fiscal year 2005 were \$6,558 million, a \$510 million (8.4%) over the comparable collections of fiscal year 2004. Total state and federal revenues (excluding Transfers In) totaled \$5,954 million, which was \$325 million, or 5.8% above fiscal year 2004's level.

Several sources of revenue were above fiscal 2004 levels, as shown in Appendix I. These included:

- **Income Taxes (\$150 million increase):** Net income tax revenues deposited into the General Funds were up \$150 million, an 8.7% increase from the first quarter of fiscal year 2004. Gross Individual Income Tax collections were up by 3.1% or \$56 million from the first quarter of fiscal year 2004. Gross Corporate Income Tax collections were up by 42.6% or \$84 million compared to the same period a year ago. The increases were mostly driven by economic expansion and increased corporate profits
- **Sale Taxes (\$96 million increase):** The growth of 6.1% was largely attributed to increased gas prices and increases in consumer purchases, especially for automobiles which accounted for \$33 million of the increase.
- **Cigarette Taxes (\$41 million increase):** The 41% growth was due to a one-time, legislative change to reallocate \$50 million to General Funds in fiscal year 2005.
- **Inheritance Taxes (\$27 million increase):** The 64.3% growth was primarily due to estate settlements and decoupling from the federal tax requirements last year.
- **Public Utility Taxes (\$21 million increase):** The 9.2% growth is attributable to increased Telecommunications Excise Tax receipts.
- **Other State Sources (\$70 million increase):** The growth was mostly due to new fees and fee increases.
- **Operating Transfers In (\$185 million increase):** The change was attributable to a \$39 million increase from administrative chargebacks for fiscal year 2004 (collected in fiscal year 2005) and \$125 million in one-time transfers of excess cash from other state funds to the General Revenue Fund. There are no scheduled Transfers In from Pension Contribution Fund in fiscal year 2005.

Federal revenues totaled \$1,553 million, a decrease of \$100 million from the prior fiscal year. GOMB considered the \$433 million transfers in from Medical Provider Relief Fund to General Revenue Fund as federal revenue in view of the nature of the federal reimbursement resulting from the \$850 million short-term borrowing for Medicaid. Excluding this amount, the federal revenues would have been down \$533 million or 32.2%, which was primarily due to the one-time 2003 federal payment of \$422 million under the Medicaid Assistance Package. In addition, there was a one-time increase in the Medicaid reimbursement rate from 50% to 53% in fiscal year 2004. Despite the above losses, federal revenues declined by only 6.0% (\$100 million) in the first quarter of fiscal year 2005.

## **DISBURSEMENTS (EXPENDITURES AND TRANSFERS OUT)**

As further detailed in Appendix II, total cash disbursements (Expenditures and Transfers Out) were \$6,448 million, a reduction of \$345 million over the previous year.

**Award and Grants (\$786 million decrease):** Spending was down by \$786 million or 16.9% from last year, which was directly attributable to the \$835 million or a 39.4% decrease in Medicaid grant spending by the Department of Public Aid. The decline in Medicaid is due to the aggressive cash management strategy employed by the Department of Public Aid to maximize matching federal dollars in fiscal year 2004 when a higher reimbursement rate was in effect. Other areas of decrease include: Teacher's Retirement grants, Higher Education grants and All Other grants.

**Operations:** Fiscal year 2005 first quarter operating expenditures varied little from the same quarter last fiscal year. Total Operations Disbursements decreased by \$2 million, continues the trend of fiscal year 2004 being less than fiscal year 2003.

- **Higher Education (\$64 million decrease):** Higher Education agencies did not receive General Funds' budgets until August 2004, resulting in July spending of \$82 million less than a year ago. Although August spending caught up, first quarter spending in fiscal year 2005 was still 15% lower than the comparable period last year. Legislative changes also contributed to first quarter decreased spending. In fiscal year 2005, Higher Education agencies are no longer required to pay \$45 million of Group Insurance costs out of their budgets (the fiscal year 2005 monies were appropriated directly to Central Management Services). Therefore, operating expenditures of Higher Education agencies will be reduced throughout the current fiscal year.
- **Regular Operating Expenditures (\$62 million increase):** The growth in expenditures can be attributed to: (a) payouts to state employees who participated in the fiscal year 2005 severance plan; and (b) an increase in retirement contributions made by the State. Moreover, Group Insurance costs of Higher Education (as noted above) will increase Regular Operating Expenditures throughout fiscal year 2005.

**Operating Transfers Out and Others (\$947 million increase):** Fiscal year 2005 first quarter Transfers Out totaled \$1,416 million, or \$947 million higher than last fiscal year. \$768 million of the increase was due to debt service transfers, which were utilized to pay both bond (\$193 million) and the short-term borrowing (\$575 million) used to maximize matching federal dollars. In addition, \$80 million was transferred to the State Pensions Fund, as required by legislation.

## FINANCIAL POSITION

In the first quarter of fiscal year 2005, total receipts exceeded total disbursements by \$110 million, increasing the State's General Funds cash balance from \$182 million on July 31, 2004, to \$292 million on September 30, 2004. Details are included in Appendix II.

### Liquidity Continued to Improve

General Funds Accounts Payable went down from \$781 million to \$536 million at September 30, 2004, while Income Tax Refunds liabilities dropped by \$204 million to \$2 million by the end of the first quarter in fiscal year 2005.

**Table II**  
**FINANCIAL POSITION**  
**First Quarter**  
**FY2004 vs. FY2005**  
(in millions)

	FY 04	FY 05	Change
<b>CASH BALANCE</b>			
General Funds Cash Balance (6/30)	\$ 317	\$ 182	\$ (135)
Cash Basis Operating Surplus/(Deficit) in the First Quarter	\$ (224)	\$ 110	\$ 334
Transfer In from Budget Stabilization Fund	\$ 226	\$ -	\$ (226)
General Funds Cash Balance (9/30)	\$ 319	\$ 292	\$ (27)
Budget Stabilization Fund Cash Balance (9/30)	\$ -	\$ 276	\$ 276
<b>Total Cash Balance (9/30)</b>	<b>\$ 319</b>	<b>\$ 568</b>	<b>\$ 249</b>
<b>CURRENT LIABILITIES</b>			
General Funds Accounts Payable (9/30)	\$ 781	\$ 536	\$ (245)
Income Tax Refunds Payable (9/24):			
Individual	\$ 206	\$ 2	\$ (204)
Corporate			
<b>Total</b>	<b>\$ 987</b>	<b>\$ 538</b>	<b>\$ (449)</b>

**APPENDIX I**  
**GENERAL FUNDS**  
**CASH RECEIPTS**  
**First Quarter FY04 vs. FY05**  
(in millions)

			Change	
	FY 2004	FY2005	Amount	Percent
<b>Cash Basis Receipts:</b>				
State Revenues:				
Gross Individual Income Tax	\$ 1,812	\$ 1,868	\$ 56	3.1%
Gross Corporate Income Tax	\$ 197	\$ 281	\$ 84	42.6%
Deposits to Income Tax Refund Fund	\$ (275)	\$ (265)	\$ 10	-3.7%
<b>Total, Net Income Taxes</b>	<b>\$ 1,734</b>	<b>\$ 1,884</b>	<b>\$ 150</b>	<b>8.7%</b>
<b>Sales Taxes</b>	<b>\$ 1,577</b>	<b>\$ 1,673</b>	<b>\$ 96</b>	<b>6.1%</b>
Other State Revenues:				
Public Utility Taxes	\$ 229	\$ 250	\$ 21	9.2%
Cigarette Taxes	\$ 100	\$ 141	\$ 41	41.0%
Inheritance Tax (gross)	\$ 42	\$ 69	\$ 27	64.3%
Liquor Gallonage Taxes	\$ 32	\$ 38	\$ 6	18.8%
Insurance Tax and Fees	\$ 74	\$ 94	\$ 20	27.0%
Corp. Franchise Tax and Fees	\$ 36	\$ 42	\$ 6	16.7%
Investment Income	\$ 20	\$ 8	\$ (12)	-60.0%
Cook County IGT	\$ 77	\$ 77	\$ -	0.0%
Other <sup>1</sup>	\$ 55	\$ 125	\$ 70	127.3%
<b>Total, Other State Revenues</b>	<b>\$ 665</b>	<b>\$ 844</b>	<b>\$ 179</b>	<b>26.9%</b>
<b>Total, State Revenues</b>	<b>\$ 3,976</b>	<b>\$ 4,401</b>	<b>\$ 425</b>	<b>10.7%</b>
Federal Revenues:				
Cash Receipts	\$ 1,641	\$ 1,075	\$ (566)	-34.5%
Transfers In <sup>2</sup>	\$ 12	\$ 479	\$ 467	3887.5%
<b>Total, Federal Revenues</b>	<b>\$ 1,653</b>	<b>\$ 1,553</b>	<b>\$ (100)</b>	<b>-6.0%</b>
<b>Total, Revenues</b>	<b>\$ 5,629</b>	<b>\$ 5,954</b>	<b>\$ 325</b>	<b>5.8%</b>
Transfers In:				
Lottery Fund	\$ 108	\$ 143	\$ 35	32.4%
State Gaming Fund	\$ 196	\$ 195	\$ (1)	-0.5%
Other Funds <sup>3</sup>	\$ 115	\$ 266	\$ 151	131.3%
<b>Total, Transfers In</b>	<b>\$ 419</b>	<b>\$ 604</b>	<b>\$ 185</b>	<b>44.2%</b>
<b>Total, Revenues and Transfers In</b>	<b>\$ 6,048</b>	<b>\$ 6,558</b>	<b>\$ 510</b>	<b>8.4%</b>
Transfer from Pension Contribution Fund <sup>4</sup>	\$ 521	\$ -	\$ (521)	-100.0%
<b>Total, Operating Cash Receipts</b>	<b>\$ 6,569</b>	<b>\$ 6,558</b>	<b>\$ (11)</b>	<b>-0.2%</b>
Short-Term Borrowing	\$ -	\$ -	\$ -	0.0%
Transfer from Budget Stabilization Fund	\$ 226	\$ -	\$ (226)	-100.0%
<b>TOTAL, CASH RECEIPTS</b>	<b>\$ 6,795</b>	<b>\$ 6,558</b>	<b>\$ (237)</b>	<b>-3.5%</b>

<sup>1</sup> Does not include Riverboat Gaming Taxes, which are included in Transfers In from State Gaming Fund.

<sup>2</sup> Includes \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid used to generate additional federal reimbursement in FY04.

<sup>3</sup> FY04 Other Transfers In does not include the \$144 million in transfers that occurred in July 2003 that should have taken place in June 2003 but were actually posted on July 1, 2003. This amount is included in FY 2003 year-end totals.

FY05 Other Transfers In does not include the \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid.

<sup>4</sup> FY04 transfers only, not comparable in FY05.

Source: Office of the Comptroller and GOMB

**APPENDIX II**  
**GENERAL FUNDS**  
**Cash Flow Summary**  
**First Quarter FY04 vs. FY05**  
(in millions)

			Change	
	FY 2004	FY 2005	Amount	Percent
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	\$ 317	\$ 182	\$ (135)	-42.6%
<b>Total Revenues</b>	\$ 5,629	\$ 5,954	\$ 325	5.8%
<b>Total Transfers In <sup>1</sup></b>	\$ 419	\$ 604	\$ 185	44.2%
<b>Total, Revenues and Transfers In</b>	\$ 6,048	\$ 6,558	\$ 510	8.4%
Transfer from Pension Contribution Fund <sup>2</sup>	\$ 521	\$ -	\$ (521)	-100.0%
<b>Total, Operating Cash Receipts</b>	\$ 6,569	\$ 6,558	\$ (11)	-0.2%
Transfer from Budget Stabilization Fund	\$ 226	\$ -	\$ (226)	-100.0%
<b>TOTAL, CASH RECEIPTS</b>	\$ 6,795	\$ 6,558	\$ (237)	-3.5%
<b>Disbursements:</b>				
Awards and Grants:				
State Board of Education	\$ 1,091	\$ 1,132	\$ 41	3.8%
Public Aid	\$ 2,117	\$ 1,282	\$ (835)	-39.4%
Human Services	\$ 724	\$ 805	\$ 81	11.2%
Teachers Retirement	\$ 252	\$ 204	\$ (48)	-19.0%
Higher Education	\$ 153	\$ 142	\$ (11)	-7.2%
All Other Grants	\$ 321	\$ 307	\$ (14)	-4.4%
<b>Total, Awards and Grants</b>	\$ 4,658	\$ 3,872	\$ (786)	-16.9%
Operations:				
Other Agencies	\$ 1,203	\$ 1,265	\$ 62	5.2%
Higher Education	\$ 428	\$ 364	\$ (64)	-15.0%
<b>Total, Operations</b>	\$ 1,631	\$ 1,629	\$ (2)	-0.1%
Regular Transfers Out	\$ 469	\$ 841	\$ 372	79.3%
All Other (Includes Prior Year Adjustments)	\$ 11	\$ 47	\$ 36	327.3%
Vouchers Payable Adjustment <sup>1</sup>	\$ 24	\$ (516)	\$ (540)	n/a
<b>Total, Base Expenditures</b>	\$ 6,793	\$ 5,873	\$ (920)	-13.5%
Transfers to Repay Short-Term Borrowing <sup>3</sup>	\$ -	\$ 575	\$ 575	n/a
<b>TOTAL, DISBURSEMENTS</b>	\$ 6,793	\$ 6,448	\$ (345)	-5.1%
<b>AVAILABLE CASH BALANCE, ENDING</b>	\$ 319	\$ 292	\$ (27)	-8.5%

<sup>1</sup> Does not include the \$144 million in transfers that were posted on July 1, 2003 and related disbursements that occurred in July 2003 that should have taken place in June 2003.

This amount was included in FY 2003 year-end receipts.

<sup>2</sup> FY04 transfers only, not comparable in FY05.

<sup>3</sup> This is the repayment related to the \$850 million short-term borrowing for Medicaid used to generate additional federal reimbursement in FY 04. The Comptroller's Office included these transfers in the Regular Transfers Out.

Source: Office of the Comptroller and GOMB