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MANAGEMENT AND BUDGET

**FISCAL YEAR 2006 SECOND QUARTER FINANCIAL REVIEW**

**Table I**  
**OPERATING HIGHLIGHTS\***  
**Second Quarter**  
**FY2005 vs. FY2006**  
(in millions)

	<u>FY 05</u>	<u>FY 06</u>	<u>Change</u>	<u>% Change</u>	<u>FY 05</u>	<u>FY 06</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATIONS</b>								
General Funds Revenues	\$ 5,374	\$ 6,092	\$ 718	13.4%	\$ 10,937	\$ 12,053	\$ 1,116	10.2%
Operating Transfers In	459	434	(25)	-5.4%	1,454	866	(588)	-40.4%
<b>Total Operating Receipts</b>	<b>\$ 5,833</b>	<b>\$ 6,526</b>	<b>\$ 693</b>	<b>11.9%</b>	<b>\$ 12,391</b>	<b>\$ 12,919</b>	<b>\$ 528</b>	<b>4.3%</b>
General Funds Expenditures	\$ 5,389	\$ 7,028	\$ 1,639	30.4%	\$ 10,421	\$ 12,921	\$ 2,500	24.0%
Operating Transfers Out	761	612	(149)	-19.6%	2,177	1,285	(892)	-41.0%
<b>Total Operating Disbursements</b>	<b>\$ 6,150</b>	<b>\$ 7,640</b>	<b>\$ 1,490</b>	<b>24.2%</b>	<b>\$ 12,598</b>	<b>\$ 14,206</b>	<b>\$ 1,608</b>	<b>12.8%</b>
<b>Change in Operating Cash-Increase(Decrease)</b>	<b>\$ (317)</b>	<b>\$ (1,114)</b>	<b>\$ (797)</b>	<b>N/A</b>	<b>\$ (207)</b>	<b>\$ (1,287)</b>	<b>\$ (1,080)</b>	<b>N/A</b>
Short-Term Borrowing	\$ -	\$ 1,000	\$ 1,000	0.0%	\$ -	\$ 1,000	\$ 1,000	0.0%
<b>Change in Cash-Increase(Decrease)</b>	<b>\$ (317)</b>	<b>\$ (114)</b>	<b>\$ 203</b>		<b>\$ (207)</b>	<b>\$ (287)</b>	<b>\$ (80)</b>	

\*Refer to Appendix I for details.

**OPERATING HIGHLIGHTS**

As illustrated in Table I and detailed in Appendix I, total second quarter state and federal revenues for fiscal year 2006 totaled \$6,092 million or \$718 million (13.4%) above the fiscal year 2005 level. Total Revenues and Operating Transfers In for the second quarter of fiscal year 2006 was \$6,526 million, a \$693 million (11.9%) increase from comparable period of fiscal year 2005. The increase was primarily attributable to an increase in income and sales tax collections.

Total expenditures were up by \$1,490 million or 24.2 % in the second quarter of fiscal year 2006 compared to 2005. The increase in total expenditures is largely due to timing of Medicaid payments of \$1.3 billion facilitated by the short-term borrowing of \$1 billion.

One-time events, as well as timing differences in revenues, spending, and cash flow impact the operating results of any one period, such that any one period results are generally offset by corresponding timing issues in subsequent periods.

## REVENUES AND OPERATING TRANSFERS IN

As detailed in Appendix I, State Revenues for the second quarter of fiscal year 2006 increased by \$147 million or 3.4% from fiscal year 2005. Collections in all major state revenue categories were up from fiscal year 2005 as described below.

- **Income Taxes (\$149 million increase):** Net income tax revenues deposited into the General Funds were up 8.0% from the second quarter of fiscal year 2005. Gross Individual Income Tax collections were up by 4.4% or \$81 million from the second quarter of fiscal year 2005. Gross Corporate Income Tax collections were up by 36.2% or \$100 million, compared to the same period a year ago. The increases were primarily associated with higher employment, continued economic expansion and increased corporate profits.
- **Sales Taxes (\$70 million increase):** The growth of 4.2% was largely attributed to an improving economy.
- **Public Utility Taxes (\$11 million increase):** The 4.2% growth can be attributed to a warmer late summer and early fall leading to higher electricity taxes collected by utility companies and subsequently remitted to the State in the second quarter of fiscal year 2006.
- **Investment Income (\$14 million increase):** The 70% growth is attributable to increased cash balances and higher interest rates.
- **Cook County Intergovernmental Transfer (IGT) (\$67 million decrease):** The 57.8% decrease is due to federal law that reduces allowable Medicaid payments to local government health care providers, which are needed to generate the IGT revenue, as well as changes in the timing of allocations between the state and Cook County. This decrease was anticipated in the fiscal year 2006 budget as a \$90 million decrease.
- **Gaming and Lottery (\$ 3 million decrease):** Gaming revenues decreased largely due to timing. Gaming locations will reconcile their tax payments to the State by June, 2006 based on a “hold harmless” provision statutorily provided for fiscal year 2006 such that Gaming transfers and Riverboat Gambling Taxes in fiscal year 2005 (prior fiscal year) establish the minimum amount for fiscal year 2006. A reconciliation to determine the amount of additional monies that are due to the State will be conducted in the fourth quarter of fiscal 2006. Lottery transfers grew by \$24 million (17.5%) resulting in the net decrease of \$3 million when comparing combined gaming and lottery receipts of current and previous year quarters.
- **All Other Sources (\$12 million increase):** Cigarette Taxes as well as Insurance Tax and Fees each reflected a decrease of \$9 million in the second quarter of fiscal year 2006. Inheritance Tax increased by \$6 million, Liquor Gallonage Taxes increased by \$1 million, Corporate Franchise Tax and Fees increased \$4 million while Other Sources increased by \$19 million.
- **Other Transfers In (\$25 million decrease):** The 13.4% decrease is primarily due to intra-year timing differences stemming from fewer statutory fund sweeps and less administrative chargeback activity this quarter versus last year.
- **Federal sources (\$571 million increase):** The 57.8% increase is attributable to federal reimbursements

for Medicaid payments financed due to the acceleration of cash disbursements facilitated by a \$1 billion short-term borrowing in November.

## **EXPENDITURES AND TRANSFERS OUT**

As further detailed in Appendix II and discussed below, total cash disbursements during the second quarter of fiscal year 2006 (Expenditures and Transfers Out) were \$7,640 million, an increase of \$1,490 million or 24.2% over the previous year due to the acceleration of cash disbursements facilitated by short-term replacement borrowing previously discussed. One-time events, as well as timing differences in revenues and spending (as described below), impact the operating results of the second quarter, particularly for fiscal 2005, such that any one quarter results are generally offset by corresponding timing issues in subsequent periods.

### **Operating Highlights:**

- **Award and Grants (\$325 million increase):** Spending was up by \$325 million or 6.9% from last year, which was attributable primarily to accelerated Medicaid payment from the short-term replacement borrowing.
- **Operations (\$106 million increase):** Fiscal year 2006 second quarter operating expenditures increased \$106 million or 6.4%. Higher Education increased by \$85 million, or 19.2%. The 19.2% increase is due to the agency not receiving a general funds budget until August of 2004 (thus using other university funds in the first part of the year), thereby creating comparability timing differences between FY05 and FY06. All other agencies increased by \$21 million or 1.7%.
- **Transfers Out (\$149 million decrease):** Transfers out of \$612 million in the second quarter of fiscal year 2006 are \$149 million or 19.6% less than transfers of the like FY05 quarter. In the FY05 quarter, \$278 million was transferred to repay short-term borrowing, whereas no such transfers were made in the current quarter. However, debt service on General Obligation bonds increased by \$75 million (due to timing) and transfers to the Local Governmental Distributive Fund increased by \$20 million due to increased income tax collections.

## FINANCIAL POSITION

In the second quarter of fiscal year 2006, total disbursements exceeded total receipts by \$114 million. General Funds cash balance decreased from \$600 million as of September 30, 2005 to \$486 million on December 31, 2005 reflecting a reduction of accounts payable including Medicaid liabilities.

General Funds accounts payable decreased from \$1,126 million as of September 30, 2005 to \$906 million on December 31, 2005. The net working capital position (Cash less Accounts Payable) decreased by \$82 million from fiscal 2005, primarily reflecting intra-year timing differences, as previously described.

**Table II**  
**SELECTED FINANCIAL HIGHLIGHTS**  
**Second Quarter**  
**FY2005 vs. FY2006**  
(in millions)

	<u>FY 05</u>	<u>FY 06</u>	<u>Change</u>
<b>CASH BALANCE</b>			
General Funds Cash Balance (9/30)	\$ 292	\$ 600	\$ 308
Change in Operating Cash Increase(Decrease) for Second Quarter*	(317)	(1,114)	(797)
Short-term Borrowing Proceeds		1,000	-
Transfer In from Budget Stabilization Fund	276	-	(276)
General Funds Cash Balance (12/31)**	<u>251</u>	<u>486</u>	<u>235</u>
Budget Stabilization Fund Cash Balance (12/31)	-	-	-
<b>Total Cash Balance (12/31)</b>	<b><u>\$ 251</u></b>	<b><u>\$ 486</u></b>	<b><u>\$ 235</u></b>
<b>SELECT CURRENT LIABILITIES</b>			
General Funds Accounts Payable (12/31)***	\$ 1,589	\$ 906	\$ (683)
Short-Term Borrowing Payable (12/31)	-	1,000	1,000
Income Tax Refunds Payable (12/31):			
Individual	7	7	-
<b>Total Select Current Liabilities</b>	<b><u>\$ 1,596</u></b>	<b><u>\$ 1,913</u></b>	<b><u>\$ 317</u></b>

\* See Table I

\*\* See Appendix II

\*\*\* Source: Office of the Comptroller

**APPENDIX I  
GENERAL FUNDS  
CASH RECEIPTS  
Second Quarter FY05 vs. FY06  
(in millions)**

			<b>Change</b>	
	<b>FY 2005</b>	<b>FY2006</b>	<b>Amount</b>	<b>Percent</b>
<b>Cash Basis Receipts:</b>				
State Revenues:				
Gross Individual Income Tax	\$ 1,847	\$ 1,928	\$ 81	4.4%
Gross Corporate Income Tax	\$ 276	\$ 376	\$ 100	36.2%
Deposits to Income Tax Refund Fund	\$ (251)	\$ (283)	\$ (32)	12.8%
<b>Total, Net Income Taxes</b>	<b>\$ 1,872</b>	<b>\$ 2,021</b>	<b>\$ 149</b>	<b>8.0%</b>
<b>Sales Taxes</b>	<b>\$ 1,660</b>	<b>\$ 1,730</b>	<b>\$ 70</b>	<b>4.2%</b>
Other State Revenues:				
Public Utility Taxes	\$ 261	\$ 272	\$ 11	4.2%
Cigarette Taxes	\$ 109	\$ 100	\$ (9)	-8.3%
Inheritance Tax (gross)	\$ 69	\$ 75	\$ 6	8.7%
Liquor Gallonage Taxes	\$ 38	\$ 39	\$ 1	2.6%
Insurance Tax and Fees	\$ 74	\$ 65	\$ (9)	-12.2%
Corp. Franchise Tax and Fees	\$ 45	\$ 49	\$ 4	8.9%
Investment Income	\$ 20	\$ 34	\$ 14	70.0%
Cook County IGT	\$ 116	\$ 49	\$ (67)	-57.8%
Riverboat Gambling Taxes <sup>1</sup>	\$ 42	\$ -	\$ (42)	-100.0%
Other	\$ 80	\$ 99	\$ 19	23.8%
<b>Total, Other State Revenues</b>	<b>\$ 854</b>	<b>\$ 782</b>	<b>\$ (72)</b>	<b>-8.4%</b>
<b>Total, State Revenues</b>	<b>\$ 4,386</b>	<b>\$ 4,533</b>	<b>\$ 147</b>	<b>3.4%</b>
Federal Revenues:	\$ 988	\$ 1,559	\$ 571	57.8%
<b>Total, Revenues</b>	<b>\$ 5,374</b>	<b>\$ 6,092</b>	<b>\$ 718</b>	<b>13.4%</b>
Transfers In:				
State Lottery Fund	\$ 137	\$ 161	\$ 24	17.5%
State Gaming Fund	\$ 165	\$ 180	\$ 15	9.1%
Other State Funds	\$ 147	\$ 83	\$ (64)	-43.5%
Federal Funds	\$ 10	\$ 10	\$ -	0.0%
<b>Total, Transfers In</b>	<b>\$ 459</b>	<b>\$ 434</b>	<b>\$ (25)</b>	<b>-5.4%</b>
<b>Total, Operating Cash Receipts</b>	<b>\$ 5,833</b>	<b>\$ 6,526</b>	<b>\$ 693</b>	<b>11.9%</b>
Short-Term Borrowing	\$ -	\$ 1,000	\$ 1,000	0.0%
Transfer from Budget Stabilization Fund	\$ 276	\$ -	\$ (276)	-100.0%
<b>TOTAL, CASH RECEIPTS</b>	<b>\$ 6,109</b>	<b>\$ 7,526</b>	<b>\$ 1,417</b>	<b>23.2%</b>

<sup>1</sup> Two-year Incremental Riverboat Gaming Tax collections ceased 6/30/05. See Gaming and Lottery pg. 2.  
Source: Illinois Office of the Comptroller (IOC) and GOMB.

**APPENDIX II**  
**GENERAL FUNDS**  
**Cash Flow Summary**  
**Second Quarter FY05 vs. FY06**  
(in millions)

	Second Quarter		Change		YTD		Change	
	FY 2005	FY 2006	Amount	Percent	FY 2005	FY 2006	Amount	Percent
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	\$ 292	\$ 600	\$ 308		\$ 182	\$ 497	\$ 315	
<b>Total Revenues</b>	\$ 5,374	\$ 6,092	\$ 718	13.4%	\$ 10,937	\$ 12,053	\$ 1,116	10.2%
<b>Total Transfers In</b>	\$ 459	\$ 434	\$ (25)	-5.4%	\$ 1,454	\$ 866	\$ (588)	-40.4%
<b>Total, Operating Cash Receipts</b>	\$ 5,833	\$ 6,526	\$ 693	11.9%	\$ 12,391	\$ 12,919	\$ 528	4.3%
Transfer from Budget Stabilization Fund	\$ 276	\$ -	\$ (276)	-100.0%	\$ 276	\$ 276	\$ -	0.0%
Short-term Borrowing Proceeds	\$ -	\$ 1,000	\$ 1,000	0.0%	\$ -	\$ 1,000	\$ 1,000	0.0%
<b>TOTAL, CASH RECEIPTS</b>	\$ 6,109	\$ 7,526	\$ 1,417	23.2%	\$ 12,667	\$ 14,195	\$ 1,528	12.1%
<b>Disbursements:</b>								
Awards and Grants:								
State Board of Education	1,515	1,538	\$ 23	1.5%	\$ 2,647	\$ 2,749	\$ 102	3.9%
Public Aid	1,616	2,010	\$ 394	24.4%	\$ 2,898	\$ 4,189	\$ 1,291	44.5%
Human Services	737	745	\$ 8	1.1%	\$ 1,542	\$ 1,596	\$ 54	3.5%
Teachers Retirement	243	152	\$ (91)	-37.4%	\$ 447	\$ 304	\$ (143)	-32.0%
Higher Education	220	219	\$ (1)	-0.5%	\$ 362	\$ 401	\$ 39	10.8%
All Other Grants	\$ 363	\$ 355	\$ (8)	-2.2%	\$ 670	\$ 668	\$ (2)	-0.3%
<b>Total, Awards and Grants</b>	\$ 4,694	\$ 5,019	\$ 325	6.9%	\$ 8,566	\$ 9,907	\$ 1,341	15.7%
Operations:								
Other Agencies	1,208	1,229	\$ 21	1.7%	\$ 2,473	\$ 2,485	\$ 12	0.5%
Higher Education	\$ 442	\$ 527	\$ 85	19.2%	\$ 806	\$ 913	\$ 107	13.3%
<b>Total, Operations</b>	\$ 1,650	\$ 1,756	\$ 106	6.4%	\$ 3,279	\$ 3,398	\$ 119	3.6%
Regular Transfers Out	761	612	\$ (149)	-19.6%	\$ 2,177	\$ 1,285	\$ (892)	-41.0%
All Other (Includes Prior Year Adjustments)	4	1	\$ (3)	-75.0%	\$ 51	\$ 6	\$ (45)	-88.2%
Vouchers Payable Adjustment	\$ (959)	\$ 252	\$ 1,211	-126.3%	\$ (1,475)	\$ (390)	\$ 1,085	-73.6%
<b>Total, Base Expenditures</b>	\$ 6,150	\$ 7,640	\$ 1,490	24.2%	\$ 12,598	\$ 14,206	\$ 1,608	12.8%
Transfers to Repay Short-Term Borrowing	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
<b>TOTAL, DISBURSEMENTS</b>	\$ 6,150	\$ 7,640	\$ 1,490	24.2%	\$ 12,598	\$ 14,206	\$ 1,608	12.8%
<b>AVAILABLE CASH BALANCE, ENDING</b>	\$ 251	\$ 486	\$ 235		\$ 251	\$ 486	\$ 235	

Source: Office of the Comptroller and GOMB