



ROD BLAGOJEVICH
GOVERNOR

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2006 THIRD QUARTER FINANCIAL REVIEW

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

| | Third Quarter | | | | Year to Date | | | |
|--|-----------------|-----------------|-----------------|-----------------|------------------|-------------------|----------------|-----------------|
| | <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> |
| OPERATIONS | | | | | | | | |
| General Funds Revenues | \$ 6,119 | \$ 6,153 | \$ 34 | 0.6% | \$ 17,066 | \$ 18,216 | \$ 1,150 | 6.7% |
| Operating Transfers In | 430 | 488 | 58 | 13.5% | 1,874 | 1,344 | (530) | -28.3% |
| Total Operating Receipts | \$ 6,549 | \$ 6,641 | \$ 92 | 1.4% | \$ 18,940 | \$ 19,560 | \$ 620 | 3.3% |
| General Funds Expenditures | \$ 6,545 | \$ 5,651 | \$ (894) | -13.7% | \$ 16,966 | \$ 18,572 | \$ 1,606 | 9.5% |
| Operating Transfers Out | 715 | 715 | - | 0.0% | 2,892 | 2,000 | (892) | -30.8% |
| Total Operating Disbursements | \$ 7,260 | \$ 6,366 | \$ (894) | -12.3% | \$ 19,858 | \$ 20,572 | \$ 714 | 3.6% |
| Change in Operating Cash-Increase(Decrease) | \$ (711) | \$ 275 | \$ 986 | N/A | \$ (918) | \$ (1,012) | \$ (94) | N/A |

*Refer to Appendix I for details.

OPERATING HIGHLIGHTS

As illustrated in Table I and detailed in Appendix I, total third quarter state and federal revenues for fiscal year 2006 totaled \$6,153 million or \$34 million (.6%) above the fiscal year 2005 level. Total Revenues and Operating Transfers In for the third quarter of fiscal year 2006 was \$6,641 million, a \$92 million (1.4%) increase from comparable period of fiscal year 2005. The increase was primarily attributable to an increase in income tax and sales tax collections.

Total disbursements decreased by \$894 million (-13.7%) in the third quarter of fiscal year 2006 compared to 2005. The decrease was primarily attributable to a significant amount of cash disbursements used to reduce outstanding vouchers payable in fiscal year 2005. 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 third quarter of fiscal year 2006 increased by \$278 million or 5.7% from fiscal year 2005.

- **Income Taxes (\$164 million increase):** Net income tax revenues deposited into the General Funds were up 6.8% from the third quarter of fiscal year 2005. Gross Individual Income Tax collections were up by 6.2% or \$148 million from the third quarter of fiscal year 2005. Gross Corporate Income Tax collections were up by 10.8% or \$41 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 (\$137 million increase):** The growth of 8.6% was largely attributed to an improving economy.
- **Public Utility Taxes (\$2 million increase):** The .7% growth can be attributed to a shorter winter as compared to third quarter fiscal year 2005.
- **Investment Income (\$20 million increase):** The 105.3% growth is attributable to increased cash balances and higher interest rates.
- **Cook County Intergovernmental Transfer (IGT) (\$21 million increase):** The 19.8% increase is due to timing and was expected to reverse itself from the decline, as reported, in the first two quarters of this current fiscal year.
- **Gaming and Lottery (\$10 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. This provision is 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 \$16 million (10.1%) resulting in the net decrease of \$10 million when comparing combined gaming and lottery receipts of current and previous year quarters.
- **All Other Sources (\$35 million decrease):** Cigarette Taxes were flat and Insurance Tax and Fees reflect a decrease of \$1 million in the third quarter of fiscal year 2006. Inheritance Tax decreased by \$25 million, Liquor Gallonage Taxes increased by \$1 million, Corporate Franchise Tax and Fees decreased \$2 million while Other Sources decreased by \$18 million.
- **Other Transfers In (\$58 million increase):** The 13.5% increase is primarily due to intra-year timing differences stemming from fewer statutory fund sweeps and administrative chargeback activity this quarter versus last year.
- **Federal Sources (\$244 million decrease):** The 20.0% decrease is attributable to federal reimbursements for Medicaid reimbursements which occurred in third quarter fiscal year 2005 due to short term borrowing.

EXPENDITURES AND TRANSFERS OUT

As further detailed in Appendix II and discussed below, total cash disbursements (Expenditures plus Transfers Out) during the third quarter of fiscal year 2006 were \$6,366 million, a decrease of \$894 million or 12.3% from the previous year. That decrease was primarily due to the acceleration during fiscal year 2005 of cash disbursements facilitated by short-term replacement borrowing. The additional cash disbursements reduced the outstanding vouchers payable in fiscal year 2005, as compared to fiscal 2006, by \$777 million, and Medicaid spending by \$126 million. One-time events, as well as timing differences in revenues and spending (as described below), impact the operating results of the third 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 (\$118 million decrease):** Spending was down \$118 million or 3.0% from last year, which was attributable primarily to a decrease in Medicaid spending of \$126 million or 11% associated with accelerated payments in fiscal year 2005.
- **Operations (\$3 million decrease):** Fiscal year 2006 third quarter operating expenditures decreased \$3 million or .2%. Higher Education decreased by \$41 million, or 9.0% due to timing differences. Other agencies operations spending increased \$38 million, or 3.1%.

FINANCIAL POSITION

In the third quarter of fiscal year 2006, total receipts exceeded total disbursements by \$275 million. With transfers out to replenish the Budget Stabilization Fund, the General Funds cash balance at March 31, 2006 was maintained at the December 31, 2005 level of \$486 million. However, total operating cash (General Funds plus the Budget Stabilization Fund) increased by \$458 million over the comparable period in fiscal year 2005.

General Funds accounts payable decreased from \$906 million as of December 31, 2005 to \$744 million on March 31, 2006. The net March 31st working capital position (cash less accounts payable) improved by \$388 million from fiscal 2005, primarily reflecting intra-year timing differences, as previously described.

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

| | <u>FY 05</u> | <u>FY 06</u> | <u>Change</u> |
|--|-----------------|-----------------|----------------|
| CASH BALANCE | | | |
| General Funds Cash Balance (12/31) | \$ 251 | \$ 486 | \$ 235 |
| Change in Operating Cash Increase(Decrease) for Third Quarter* | (711) | 275 | 986 |
| Short-term Borrowing Proceeds | 763 | - | - |
| Transfer In (Out) from (to) Budget Stabilization Fund | - | (275) | (275) |
| General Funds Cash Balance (3/31)** | 303 | 486 | 183 |
| Budget Stabilization Fund Cash Balance (3/31) | - | 275 | 275 |
| Total Cash Balance (3/31) | \$ 303 | \$ 761 | \$ 458 |
| KEY CURRENT LIABILITIES | | | |
| General Funds Accounts Payable (3/31)*** | \$ 674 | \$ 744 | \$ 70 |
| Short-Term Borrowing Payable (3/31) | 765 | 725 | (40) |
| Income Tax Refunds Payable (3/31) | 78 | 31 | (47) |
| Total Key Current Liabilities | \$ 1,517 | \$ 1,500 | \$ (17) |

* See Table I

** See Appendix II

*** Source: Office of the Comptroller

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

| | | | <u>Change</u> | |
|---|-----------------|-----------------|-------------------|----------------|
| | <u>FY 2005</u> | <u>FY2006</u> | <u>Amount</u> | <u>Percent</u> |
| Cash Basis Receipts: | | | | |
| State Revenues: | | | | |
| Gross Individual Income Tax | \$ 2,368 | \$ 2,516 | \$ 148 | 6.2% |
| Gross Corporate Income Tax | \$ 379 | \$ 420 | \$ 41 | 10.8% |
| Deposits to Income Tax Refund Fund | \$ (328) | \$ (352) | \$ (25) | 7.5% |
| Total, Net Income Taxes | \$ 2,419 | \$ 2,583 | \$ 164 | 6.8% |
| Sales Taxes | \$ 1,590 | \$ 1,727 | \$ 137 | 8.6% |
| Other State Revenues: | | | | |
| Public Utility Taxes | \$ 294 | \$ 296 | \$ 2 | 0.7% |
| Cigarette Taxes | \$ 100 | \$ 100 | \$ - | 0.0% |
| Inheritance Tax (gross) | \$ 94 | \$ 69 | \$ (25) | -26.6% |
| Liquor Gallonage Taxes | \$ 35 | \$ 36 | \$ 1 | 2.9% |
| Insurance Tax and Fees | \$ 57 | \$ 56 | \$ (1) | -1.8% |
| Corp. Franchise Tax and Fees | \$ 46 | \$ 44 | \$ (2) | -4.3% |
| Investment Income | \$ 19 | \$ 39 | \$ 20 | 105.3% |
| Cook County IGT | \$ 106 | \$ 127 | \$ 21 | 19.8% |
| Riverboat Gambling Taxes ¹ | \$ 21 | \$ - | \$ (21) | -100.0% |
| Other | \$ 116 | \$ 98 | \$ (18) | -15.5% |
| Total, Other State Revenues | \$ 888 | \$ 865 | \$ (23) | -2.6% |
| Total, State Revenues | \$ 4,897 | \$ 5,175 | \$ 278 | 5.7% |
| Federal Revenues: | \$ 1,222 | \$ 978 | \$ (244) | -20.0% |
| Total, Revenues | \$ 6,119 | \$ 6,153 | \$ 34 | 0.6% |
| Transfers In: | | | | |
| State Lottery Fund | \$ 158 | \$ 174 | \$ 16 | 10.1% |
| State Gaming Fund | \$ 100 | \$ 95 | \$ (5) | -5.0% |
| Other State Funds | \$ 162 | \$ 209 | \$ 47 | 29.0% |
| Federal Funds | \$ 10 | \$ 10 | \$ - | 0.0% |
| Total, Transfers In | \$ 430 | \$ 488 | \$ 58 | 13.5% |
| Total, Operating Cash Receipts | \$ 6,549 | \$ 6,641 | \$ 92 | 1.4% |
| Cash Flow Transfer-Hospital Provider Fund | \$ 763 | \$ - | \$ (763) | -100.0% |
| Short-Term Borrowing | \$ 765 | \$ - | \$ (765) | -100.0% |
| Transfer from Budget Stabilization Fund | \$ - | \$ - | \$ - | 0.0% |
| TOTAL, CASH RECEIPTS | \$ 8,077 | \$ 6,641 | \$ (1,436) | -17.8% |

¹ Two-year Incremental Riverboat Gaming Tax collections ceased 6/30/05. See Gaming and Lottery pg. 2.

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

| | Third Quarter | | Change | | YTD | | Change | |
|---|---------------|----------|------------|---------|-----------|-----------|----------|---------|
| | FY 2005 | FY 2006 | Amount | Percent | FY 2005 | FY 2006 | Amount | Percent |
| AVAILABLE CASH BALANCE, BEGINNING | \$ 251 | \$ 486 | \$ 235 | | \$ 182 | \$ 497 | \$ 315 | |
| Total Revenues | \$ 6,119 | \$ 6,153 | \$ 34 | 0.6% | \$ 17,066 | \$ 18,216 | \$ 1,150 | 6.7% |
| Total Transfers In | \$ 430 | \$ 488 | \$ 58 | 13.5% | \$ 1,874 | \$ 1,344 | \$ (530) | -28.3% |
| Total, Operating Cash Receipts | \$ 6,549 | \$ 6,641 | \$ 92 | 1.4% | \$ 18,940 | \$ 19,560 | \$ 620 | 3.3% |
| Cash Flow Transfer - Hospital Provider Fund | \$ 763 | \$ - | \$ (763) | -100.0% | \$ 763 | \$ - | \$ (763) | -100.0% |
| Transfer from Budget Stabilization Fund | \$ - | \$ - | \$ - | 0.0% | \$ 276 | \$ 276 | \$ - | 0.0% |
| Short-term Borrowing Proceeds | \$ 765 | \$ - | \$ (765) | -100.0% | \$ 765 | \$ 1,000 | \$ 235 | 30.7% |
| TOTAL, CASH RECEIPTS | \$ 8,077 | \$ 6,641 | \$ (1,436) | -17.8% | \$ 20,744 | \$ 20,836 | \$ 92 | 0.4% |
| Disbursements: | | | | | | | | |
| Awards and Grants: | | | | | | | | |
| State Board of Education | \$ 1,373 | \$ 1,470 | \$ 97 | 7.1% | \$ 4,020 | \$ 4,219 | \$ 199 | 5.0% |
| Public Aid | \$ 1,147 | \$ 1,021 | \$ (126) | -11.0% | \$ 4,045 | \$ 5,210 | \$ 1,165 | 28.8% |
| Human Services | \$ 703 | \$ 704 | \$ 1 | 0.1% | \$ 2,245 | \$ 2,300 | \$ 55 | 2.4% |
| Teachers Retirement | \$ 243 | \$ 152 | \$ (91) | -37.4% | \$ 690 | \$ 456 | \$ (234) | -33.9% |
| Higher Education | \$ 251 | \$ 251 | \$ - | 0.0% | \$ 613 | \$ 652 | \$ 39 | 6.4% |
| All Other Grants | \$ 266 | \$ 267 | \$ 1 | 0.4% | \$ 936 | \$ 935 | \$ (1) | -0.1% |
| Total, Awards and Grants | \$ 3,983 | \$ 3,865 | \$ (118) | -3.0% | \$ 12,549 | \$ 13,772 | \$ 1,223 | 9.7% |
| Operations: | | | | | | | | |
| Other Agencies | \$ 1,215 | \$ 1,253 | \$ 38 | 3.1% | \$ 3,688 | \$ 3,738 | \$ 50 | 1.4% |
| Higher Education | \$ 454 | \$ 413 | \$ (41) | -9.0% | \$ 1,260 | \$ 1,326 | \$ 66 | 5.2% |
| Total, Operations | \$ 1,669 | \$ 1,666 | \$ (3) | -0.2% | \$ 4,948 | \$ 5,064 | \$ 116 | 2.3% |
| Regular Transfers Out | \$ 715 | \$ 715 | \$ - | 0.0% | \$ 2,892 | \$ 2,000 | \$ (892) | -30.8% |
| All Other (Includes Prior Year Adjustments) | \$ 1 | \$ 5 | \$ 4 | 400.0% | \$ 52 | \$ 11 | \$ (41) | -78.8% |
| Vouchers Payable Adjustment | \$ 892 | \$ 115 | \$ (777) | -87.1% | \$ (583) | \$ (275) | \$ 308 | -52.8% |
| Total, Base Expenditures | \$ 7,260 | \$ 6,366 | \$ (894) | -12.3% | \$ 19,858 | \$ 20,572 | \$ 714 | 3.6% |
| Cash Flow Transfer - Hospital Provider Fund | \$ 765 | \$ - | \$ (765) | -100.0% | \$ 765 | \$ - | \$ (765) | -100.0% |
| Transfers to Repay Short-Term Borrowing | \$ - | \$ 275 | \$ 275 | 0.0% | \$ - | \$ 275 | \$ 275 | 0.0% |
| TOTAL, DISBURSEMENTS | \$ 8,025 | \$ 6,641 | \$ (1,384) | -17.2% | \$ 20,623 | \$ 20,847 | \$ 224 | 1.1% |
| AVAILABLE CASH BALANCE, ENDING | \$ 303 | \$ 486 | \$ 183 | | \$ 303 | \$ 486 | \$ 183 | |

Source: Office of the Comptroller and GOMB