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**MANAGEMENT AND BUDGET**

**FISCAL YEAR 2007 THIRD QUARTER FINANCIAL REVIEW**

**Table I**  
**OPERATING HIGHLIGHTS\***  
**Third Quarter**  
**FY2006 vs. FY2007**  
(in millions)

	<b>Third Quarter</b>				<b>Year to Date</b>			
	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>	<u>% Change</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATIONS</b>								
General Funds Revenues	\$ 6,163	\$ 6,926	\$ 763	12.4%	\$ 18,216	\$ 18,787	\$ 571	3.1%
Operating Transfers In	478	422	(56)	-11.7%	1,344	1,406	62	4.6%
<b>Total Operating Receipts</b>	<b>\$ 6,641</b>	<b>\$ 7,348</b>	<b>\$ 707</b>	<b>10.6%</b>	<b>\$ 19,560</b>	<b>\$ 20,193</b>	<b>\$ 633</b>	<b>3.2%</b>
General Funds Expenditures	\$ 5,651	\$ 7,066	\$ 1,415	25.0%	\$ 18,572	\$ 18,959	\$ 387	2.1%
Operating Transfers Out	715	697	(18)	-2.5%	2,000	2,086	86	4.3%
<b>Total Operating Disbursements</b>	<b>\$ 6,366</b>	<b>\$ 7,763</b>	<b>\$ 1,397</b>	<b>21.9%</b>	<b>\$ 20,572</b>	<b>\$ 21,045</b>	<b>\$ 473</b>	<b>2.3%</b>
<b>Change in Operating Cash-Increase (Decrease)</b>	<b>\$ 275</b>	<b>\$ (415)</b>	<b>\$ (690)</b>	<b>-250.9%</b>	<b>\$ (1,012)</b>	<b>\$ (852)</b>	<b>\$ 160</b>	<b>-15.8%</b>
Short-Term Borrowing	\$ -	\$ 900	\$ 900		\$ 1,000	\$ 900	\$ (100)	-10.0%
<b>Change in Cash-Increase(Decrease)</b>	<b>\$ 275</b>	<b>\$ 485</b>	<b>\$ 210</b>		<b>\$ (12)</b>	<b>\$ 48</b>	<b>\$ 60</b>	

\*Refer to Appendix I for details.

**OPERATING HIGHLIGHTS**

Table I illustrates and Appendix I details total third quarter state and federal revenues for fiscal year 2007. Third Quarter General Fund Revenues totaled \$6,926 million or \$763 million (12.4%) above the fiscal year 2006 level. Total Revenues and Operating Transfers In for the third quarter of fiscal year 2007 was \$7,348 million, a \$707 million (10.6%) increase from comparable period of fiscal year 2006. Continued growth in individual income tax receipts account for the majority of the third quarter revenue growth.

As shown in Appendix II, total disbursements increased by \$1,397 million (21.9%) to \$7,763 million in the third quarter of fiscal year 2007 compared to 2006. The State used short-term borrowing proceeds and proceeds

from the Budget Stabilization Fund to reduce the backlog of vendor payments during this period. Supplemental payments to Medicaid Service Providers, and increased spending for education, teacher's retirement contributions and higher education account for the growth in spending during the third quarter. Final income tax payments for calendar year 2006, along with other General Funds receipts received during the fourth quarter of fiscal year 2007, will be used to repay both the short-term borrowing and replenish the Budget Stabilization Fund.

One-time events, as well as timing differences in revenues and spending, can impact the operating results of a given third quarter such that any one quarter's results are generally offset by corresponding timing differences in subsequent periods.

## REVENUES AND OPERATING TRANSFERS IN

As detailed in Appendix I, State Revenues for the third quarter of fiscal year 2007 increased by \$291 million to \$5,466 million, or 5.6 %, from fiscal year 2006.

- **Income Taxes (\$310 million increase):** Net of transfers to the Income Tax Refund Fund, income tax revenues deposited into the General Funds increased 12.0% from the third quarter of fiscal year 2006. Gross Individual Income Tax collections increased 11.4% or \$287 million from the third quarter of fiscal year 2006. Gross Corporate Income Tax collections; performing above projections for the year, increased by 16.3% or \$68 million, compared to the same period a year ago. These increases were primarily associated with continued economic expansion and increased corporate profits. Transfers to the Income Tax Refund Fund increased by \$45 million or 12.8%, when compared to fiscal year 2006, continuing to ensure sufficient cash availability for prompt payment of all refunds.
- **Sales Taxes (\$45 million decrease):** Third quarter receipts reflect a decline totaling \$45 million or 2.6% from fiscal year 2006, due to a slowdown in retail sales resulting from a deteriorating housing market as well as reduced automobile sales.
- **Public Utility Taxes (\$21 million increase):** Telecommunications tax increased 7.1% with wireless sales service growth as the principal driver.
- **Investment Income (\$12 million increase):** The 30.8% growth is attributable to increased cash balances and higher short-term interest rates.
- **Cook County Intergovernmental Transfer (IGT) (\$11 million decrease):** The 8.7% decrease is due to the IGT being reduced by the Federal government. It is projected to generate \$41 million less in 2007 than the prior fiscal year.
- **Gaming and Lottery (\$7 million increase):** Lottery transfers marginally increased by \$2 million (1.1%) while gaming revenues increased by \$5 million. Gaming corporations will reconcile their tax payment to the State by June, 2007 based on a "hold harmless" provision in statute. The provision is such that riverboat gaming receipts in fiscal year 2005 establish the minimum amount. A reconciliation to determine the amount of additional monies that are due to the State will be conducted during the fourth quarter of fiscal year 2007.
- **All Other Sources (\$4 million increase):** Cigarette Taxes decreased \$12 million, or (12.0%) due to a reduction in the statutory allocation of cigarette tax receipts deposited into the General Funds.

Inheritance Tax decreased \$20 million (29.0%) in the third quarter of fiscal year 2007 and, by its very nature, is somewhat random. Insurance Tax and Fees and Liquor Gallonage Taxes remain level with the same period in fiscal 2006. Corporate Franchise Tax and Fees increased \$7 million (15.9%) and Other Sources increased by \$29 million (29.6%), primarily due to timing differences.

- **Other Transfers In (\$63 million decrease):** The 30.1% decrease is primarily due to timing differences of transfers from other funds and administrative chargeback activity during third quarter versus the same period in fiscal 2006.
- **Federal Revenues (\$472 million increase):** Federal revenues increased \$472 million (47.8%) primarily due to increased federal reimbursements for Medicaid expenditures during the period. Proceeds from the \$900 million short term borrowing coupled with federal reimbursements were used to meet the State's \$1.2 billion obligation for supplemental payments to Medicaid Service Providers.

## **EXPENDITURES AND TRANSFERS OUT**

As further detailed in Appendix II and discussed below, total operating cash disbursements (Expenditures plus Transfers Out) during the third quarter of fiscal year 2007 were \$7,763 million, an increase of \$1,397 million or 21.9% from the previous year. The Department of Healthcare and Family Services spending increased \$804 million, or 78.7% versus the same period in fiscal 2006 due to the supplemental payments to Medicaid Service Providers in part funded through short-term borrowing. The short-term borrowing will be repaid in the fourth quarter of fiscal year 2007.

One-time events, as well as timing differences in revenues and spending, can impact the operating results of a given third quarter such that any one quarter's results are generally offset by corresponding timing differences in subsequent periods.

### **Operating Highlights:**

- **Award and Grants (\$1,093 million increase):** Spending increased 28.3% from last year. The increase was attributable primarily to increased spending in Healthcare and Family Services as discussed above. Higher Education spending increased by \$66 million, or 26.3% primarily due to additional spending for State University Retirement. Teachers' retirement grants were up \$51 million, or 33.6%; K-12 education spending increased by \$102 million or 6.9% from third quarter fiscal 2006 due to increased General State Aid and the new student assessment, security and bilingual programs initiated in fiscal 2007.
- **Operations (\$41 million increase):** Fiscal year 2007 third quarter operating expenditures increased by 2.5%. Higher education operating spending decreased by \$45 million, or 10.9%, due to timing differences. (Total higher education spending, including Awards and Grants (noted above) and Operations, increased by a net amount of \$21 million during the third quarter.) Other agencies operations increased \$86 million, or 6.9%, largely due to the Department of Healthcare and Family Services and increases in group insurance contributions.

## FINANCIAL POSITION

In the third quarter of fiscal year 2007, total operating disbursements exceeded total operating receipts by \$415 million due to increased spending for Medicaid, Teachers' Retirement, and increased spending by the State Board of Education school programming. Proceeds from short-term borrowing of \$900 million financed the increased spending for third quarter. The General Funds cash balance at March 31, 2007 was \$303 million, \$183 million less than the March 31, 2006 level of \$486 million.

General Funds accounts payable decreased from \$1,337 million as of December 31, 2006 to \$936 million on March 31, 2007 and was an increase of \$192 million over the March 31, 2006 balance. The net March 31<sup>st</sup> working capital position (cash less accounts payable) declined by \$190 million from fiscal 2006, primarily due to timing differences of spending between fiscal years.

### Third Quarter FY2006 vs. FY2007 (in millions)

	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>
<b>CASH BALANCE</b>			
General Funds Cash Balance (12/31)	\$ 486	\$ 429	\$ (57)
Change in Operating Cash Increase(Decrease)*	275	(415)	(690)
Short-term Borrowing Proceeds	-	900	900
Hospital Provider Fund Transfers	-	(611)	(611)
Transfer to Repay Short-Term Borrowing	(275)	-	275
Transfer In from Budget Stabilization Fund	-	-	-
General Funds Cash Balance (3/31)**	486	303	(183)
Budget Stabilization Fund Cash Balance (3/31)	-	-	-
<b>Total Cash Balance (3/31)</b>	<b>\$ 486</b>	<b>\$ 303</b>	<b>\$ (183)</b>
<b>SELECT CURRENT LIABILITIES</b>			
General Funds Accounts Payable (3/31)***	\$ 744	\$ 936	\$ 192
Short-Term Borrowing Payable (3/31)	725	900	175
Income Tax Refunds Payable (3/31):			
Individual	31	7	(24)
<b>Total Select Current Liabilities</b>	<b>\$ 1,500</b>	<b>\$ 1,843</b>	<b>\$ 343</b>
Income Tax Refund Fund Cash Balance	\$ 86	\$ 130	\$ 44

\* See Table I

\*\* See Appendix II

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

**APPENDIX I  
GENERAL FUNDS  
CASH RECEIPTS  
Third Quarter FY06 vs. FY07  
(in millions)**

			<b>Change</b>	
	<b>FY 2006</b>	<b>FY2007</b>	<b>Amount</b>	<b>Percent</b>
<b>Cash Basis Receipts:</b>				
State Revenues:				
Gross Individual Income Tax	\$ 2,516	\$ 2,802	\$ 287	11.4%
Gross Corporate Income Tax	\$ 420	\$ 488	\$ 68	16.3%
Deposits to Income Tax Refund Fund	\$ (352)	\$ (397)	\$ (45)	12.8%
<b>Total, Net Income Taxes</b>	<b>\$ 2,583</b>	<b>\$ 2,893</b>	<b>\$ 310</b>	<b>12.0%</b>
<b>Sales Taxes</b>	<b>\$ 1,727</b>	<b>\$ 1,682</b>	<b>\$ (45)</b>	<b>-2.6%</b>
Other State Revenues:				
Public Utility Taxes	\$ 296	\$ 317	\$ 21	7.1%
Cigarette Taxes	\$ 100	\$ 88	\$ (12)	-12.0%
Inheritance Tax (gross)	\$ 69	\$ 49	\$ (20)	-29.0%
Liquor Gallonage Taxes	\$ 36	\$ 37	\$ 1	2.8%
Insurance Tax and Fees	\$ 56	\$ 55	\$ (1)	-1.8%
Corp. Franchise Tax and Fees	\$ 44	\$ 51	\$ 7	15.9%
Investment Income	\$ 39	\$ 51	\$ 12	30.8%
Cook County IGT	\$ 127	\$ 116	\$ (11)	-8.7%
Riverboat Gambling Taxes	\$ -	\$ -	\$ -	0.0%
Other	\$ 98	\$ 127	\$ 29	29.6%
<b>Total, Other State Revenues</b>	<b>\$ 865</b>	<b>\$ 891</b>	<b>\$ 26</b>	<b>3.0%</b>
<b>Total, State Revenues</b>	<b>\$ 5,175</b>	<b>\$ 5,466</b>	<b>\$ 291</b>	<b>5.6%</b>
Federal Revenues:	\$ 988	\$ 1,460	\$ 472	47.8%
<b>Total, Revenues</b>	<b>\$ 6,163</b>	<b>\$ 6,926</b>	<b>\$ 763</b>	<b>12.4%</b>
Transfers In:				
State Lottery Fund	\$ 174	\$ 176	\$ 2	1.1%
State Gaming Fund	\$ 95	\$ 100	\$ 5	5.3%
Other State Funds	\$ 209	\$ 146	\$ (63)	-30.1%
<b>Total, Transfers In</b>	<b>\$ 478</b>	<b>\$ 422</b>	<b>\$ (56)</b>	<b>-11.7%</b>
<b>Total, Operating Cash Receipts</b>	<b>\$ 6,641</b>	<b>\$ 7,348</b>	<b>\$ 707</b>	<b>10.6%</b>
Cash Flow Transfer-Hospital Provider Fund	\$ -	\$ 289	\$ 289	
Short-Term Borrowing	\$ -	\$ 900	\$ 900	
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%
<b>TOTAL, CASH RECEIPTS</b>	<b>\$ 6,641</b>	<b>\$ 8,537</b>	<b>\$ 1,896</b>	<b>28.5%</b>

Source: Illinois Office of the Comptroller (IOC) and GOMB.

**APPENDIX II**  
**GENERAL FUNDS**  
**Cash Flow Summary**  
**Third Quarter FY06 vs. FY07**  
(in millions)

	<u>Third Quarter</u>		<u>Change</u>		<u>YTD</u>		<u>Change</u>	
	<u>FY 2006</u>	<u>FY 2007</u>	<u>Amount</u>	<u>Percent</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Amount</u>	<u>Percent</u>
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	\$ 486	\$ 429	\$ (57)		\$ 497	\$ 590	\$ 93	
<b>Total Revenues [see Appendix I]</b>	\$ 6,163	\$ 6,926	\$ 763	12.4%	\$ 18,216	\$ 18,787	\$ 571	3.1%
<b>Total Transfers In [see Appendix I]</b>	\$ 478	\$ 422	\$ (56)	-11.7%	\$ 1,344	\$ 1,406	\$ 62	4.6%
<b>Total, Operating Cash Receipts</b>	<u>\$ 6,641</u>	<u>\$ 7,348</u>	<u>\$ 707</u>	<u>10.6%</u>	<u>\$ 19,560</u>	<u>\$ 20,193</u>	<u>\$ 633</u>	<u>3.2%</u>
Cash Flow Transfer - Hospital Provider Fund	\$ -	\$ 289	\$ 289		\$ -	\$ 289	\$ 289	
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%	\$ 276	\$ 276	\$ -	0.0%
Short-term Borrowing Proceeds	\$ -	\$ 900	\$ 900		\$ 1,000	\$ 900	\$ (100)	-10.0%
<b>TOTAL, CASH RECEIPTS</b>	<u>\$ 6,641</u>	<u>\$ 8,537</u>	<u>\$ 1,896</u>	<u>28.5%</u>	<u>\$ 20,836</u>	<u>\$ 21,658</u>	<u>\$ 822</u>	<u>3.9%</u>
<b>Disbursements:</b>								
Awards and Grants:								
State Board of Education	\$ 1,470	\$ 1,572	\$ 102	6.9%	\$ 4,219	\$ 4,482	\$ 263	6.2%
Healthcare & Family Services	\$ 1,021	\$ 1,825	\$ 804	78.7%	\$ 5,210	\$ 5,304	\$ 94	1.8%
Human Services	\$ 704	\$ 716	\$ 12	1.7%	\$ 2,300	\$ 2,289	\$ (11)	-0.5%
Teachers Retirement	\$ 152	\$ 203	\$ 51	33.6%	\$ 456	\$ 610	\$ 154	33.8%
Higher Education	\$ 251	\$ 317	\$ 66	26.3%	\$ 652	\$ 725	\$ 73	11.2%
All Other Grants	\$ 267	\$ 325	\$ 58	21.7%	\$ 935	\$ 1,014	\$ 79	8.4%
<b>Total, Awards and Grants</b>	<u>\$ 3,865</u>	<u>\$ 4,958</u>	<u>\$ 1,093</u>	<u>28.3%</u>	<u>\$ 13,772</u>	<u>\$ 14,424</u>	<u>\$ 652</u>	<u>4.7%</u>
Operations:								
Other Agencies	\$ 1,253	\$ 1,339	\$ 86	6.9%	\$ 3,738	\$ 3,928	\$ 190	5.1%
Higher Education	\$ 413	\$ 368	\$ (45)	-10.9%	\$ 1,326	\$ 1,180	\$ (146)	-11.0%
<b>Total, Operations</b>	<u>\$ 1,666</u>	<u>\$ 1,707</u>	<u>\$ 41</u>	<u>2.5%</u>	<u>\$ 5,064</u>	<u>\$ 5,108</u>	<u>\$ 44</u>	<u>0.9%</u>
Regular Transfers Out	\$ 715	\$ 697	\$ (18)	-2.5%	\$ 2,000	\$ 2,086	\$ 86	4.3%
All Other (Includes Prior Year Adjustments)	\$ 5	\$ 4	\$ (1)	-20.0%	\$ 11	\$ 11	\$ -	0.0%
Vouchers Payable Adjustment	\$ 115	\$ 397	\$ 282	245.2%	\$ (275)	\$ (584)	\$ (309)	112.4%
<b>Total, Base Expenditures</b>	<u>\$ 6,366</u>	<u>\$ 7,763</u>	<u>\$ 1,397</u>	<u>21.9%</u>	<u>\$ 20,572</u>	<u>\$ 21,045</u>	<u>\$ 473</u>	<u>2.3%</u>
Cash Flow Transfer - Hospital Provider Fund	\$ -	\$ 900	\$ 900		\$ -	\$ 900	\$ 900	
Transfers to Repay Short-Term Borrowing	\$ 275	\$ -	\$ (275)	-100.0%	\$ 275	\$ -	\$ (275)	-100.0%
<b>TOTAL, DISBURSEMENTS</b>	<u>\$ 6,641</u>	<u>\$ 8,663</u>	<u>\$ 2,022</u>	<u>30.4%</u>	<u>\$ 20,847</u>	<u>\$ 21,945</u>	<u>\$ 1,098</u>	<u>5.3%</u>
<b>CASH BASIS INCREASE (DECREASE)</b>	\$ -	\$ (126)	\$ (126)		\$ (11)	\$ (287)	\$ (276)	2509.1%
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	\$ 486	\$ 429	\$ (57)	-11.7%	\$ 497	\$ 590	\$ 93	18.7%
<b>AVAILABLE CASH BALANCE, ENDING</b>	<u>\$ 486</u>	<u>\$ 303</u>	<u>\$ (183)</u>	<u>-37.7%</u>	<u>\$ 486</u>	<u>\$ 303</u>	<u>\$ (183)</u>	<u>-37.7%</u>

Source: Office of the Comptroller and GOMB