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FISCAL YEAR 2007 – YEAR END FINANCIAL OVERVIEW

FISCAL YEAR 2007 OPERATING HIGHLIGHTS

Table I
OPERATING HIGHLIGHTS*
FY2006 vs. FY2007
(unaudited in millions)

	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>	<u>% Change</u>
OPERATIONS				
General Funds Revenues	\$ 25,258	\$ 26,394	\$ 1,136	4.5%
Operating Transfers In *	2,101	2,246	145	6.9%
Total Operating Receipts	\$ 27,359	\$ 28,640	\$ 1,281	4.7%
General Funds Expenditures*	\$ 24,193	\$ 25,604	\$ 1,411	5.8%
Operating Transfers Out	3,059	2,973	(86)	-2.8%
Total Operating Disbursements	\$ 27,252	\$ 28,577	\$ 1,325	4.9%
Cash Basis Operating Surplus/(Deficit)*	\$ 107	\$ 63	\$ (44)	N/A
Other Financial Sources (Uses)	\$ (14)	\$ (11)	\$ 3	-21.4%
Increase/(Decrease) in Cash *	\$ 93	\$ 52	\$ (41)	

* Refer to Appendices I and II details.

Revenues and Operating Transfers In

Revenues and Operating Transfers In collected in fiscal year 2007 were \$28,640 million, a \$1,281 million or 4.7% increase over comparable collections in fiscal year 2006. State Revenues increased by \$1,158 million or 5.6%, primarily driven by growth in personal and corporate income taxes. These taxes are economically sensitive revenue sources that reflect the overall improvement in the Illinois economy which continued during fiscal year 2007. Federal receipts decreased by \$22 million, or 0.5% from prior year levels primarily due to the Federal restructuring of non-claimable medical expenses under the Medicare Part D program that took effect January 1, 2006. The \$145 million increase in Operating Transfers In is attributable to the net excess funds transfer from the Income Tax Refund Fund (\$98 million) and the Hospital Assessment Tax transfer of \$80 million, a new tax which sunsets in fiscal year 2008.

Appendix I details several sources of fiscal year 2007 state revenues as compared to fiscal year 2006 levels. The following are major changes impacting key elements of fiscal year 2007 revenues:

- **Income Taxes (\$1,095 million increase):** Net of transfers to the Income Tax Refund Fund, individual income taxes collected in fiscal year 2007 increased by 9.0% or \$773 million from fiscal year 2006 and corporate income tax collections increased 22.5% or \$322 million.
- **Sales Taxes (\$44 million increase):** Sales taxes were up 0.6% in fiscal year 2007 compared to the prior year. Sales tax growth slowed the last five months of fiscal year 2007 primarily due to statewide declines in auto sales and a slowing housing market impacting the construction industry.
- **Public Utility Taxes (\$57 million increase):** Public Utility Taxes rose by 5.3% in fiscal year 2007 and is largely attributable to an increase in telecommunications (wireless service) tax receipts.
- **Cigarette Taxes (\$50 million decrease):** Cigarette tax revenues declined by 12.5% due to a reduced statutory allocation to General Funds.
- **Inheritance Taxes (\$8 million decrease):** Inheritance taxes declined 2.9% compared to the same collection period during fiscal year 2006. The decrease is partially attributed to the increased individual income tax exemption allowed in 2006.
- **Insurance Taxes and Fees (\$7 million decrease):** The 2.2% decrease was primarily due to an increase in corporate income tax payments by insurance companies that are allowed as credits against insurance tax liabilities.
- **All Other Sources (\$31 million increase):** Investment Income increased by \$51 million during fiscal year 2007 primarily as a result of higher interest rates and larger cash balances. Liquor Gallonage Taxes increased by \$4 million. Cook County Intergovernmental Transfers decreased \$43 million, or 12.3% associated with a previously scheduled reduction in Federal reimbursements. Corporate Franchise Tax & Fees increases \$12 million, or 6.6% due to a strong economy and corporate profits. Other State sources increased by \$7 million or 1.5%.
- **Federal Receipts (\$22 million decrease):** Federal Receipts (\$22 million decrease): Fiscal Year 2007 Federal revenues decreased by \$22 million (0.5% decrease) resulting in large part from the implementation of the federal Medicare Part D drug program. The State of Illinois is required to make monthly clawback (formula) payments to the federal government as part of this program, based upon the State's number of dual eligibles (eligible for both Medicaid and Medicare) and the State's share of per capita Medicaid expenditures covered under Part D. This restructuring took effect January 1, 2006 and increased the level of non-matching medical assistance spending.
- **Gaming and Lottery (\$52 million decrease):** Riverboat Gambling Taxes decreased \$4 million due to timing differences. Gaming receipts remained level with fiscal year 2006 due to a "hold harmless" statutory provision that requires the gaming companies to remit the same total as paid in fiscal year 2006. Lottery fund proceeds fell by \$48 million; a 7.2% decline from fiscal 2006 primarily due to shifts in consumer purchases from on-line lottery games to instant games that result in lower transfer rates to the Common School Fund.

Expenditures and Transfers Out

Appendix II details fiscal year 2007 total Expenditures and Cash Transfers Out totaling \$28,577 million, which represents an increase of \$1,325 million (4.9% increase) from fiscal year 2006. The increase is primarily attributable to a planned increase in Medicaid and General State Aid spending for education.

Operating Highlights:

- **Awards and Grants (\$1,079 million increase):** Spending for Elementary and Secondary Education grants increased \$399 million (6.6%) from fiscal year 2006 spending. Medicaid spending increased \$353 million (5.7%) in 2007. Teachers Retirement pension system contributions increased \$205 million (33.7%). Human Services and Higher Education grant spending increased \$9 million (0.3%) and \$65 million (8.2%), while all other grants increased spending \$48 million (4%). The spending increase associated with Higher Education grants is largely due to additional spending for SURS contributions.
- **Operations (\$266 million increase):** Higher Education operations remained flat with fiscal year 2006 expenditure levels, although total Higher Education spending (Grants, Awards and Operations) increased, as discussed above. Operating expenditures increased by \$266 million (5.3%). Spending for the Department of Corrections increased \$59 million (5.1%) due to increases for bargaining unit employees, retirement and overtime costs. The Department of Healthcare and Family Services increased \$43 million (3.8%) largely due to growth in group insurance contributions. State Board of Education Spending increased \$16 million (53.5%) due to new programs initiated in fiscal 2007. Spending for the Department of Children and Family Services spending increased \$16 million (5.8%). For all other agencies combined, expenditures increased largely due to increases associated with bargaining units and retirement contributions (rate increased from 7.8% in fiscal year 2006 to 11.5% for fiscal year 2007).
- **Transfers Out (\$86 million decrease):** Transfers Out decreased by \$86 million (2.8%) in fiscal year 2007. Actual transfers out for fiscal year 2007 increased \$164 million (5.8%) over the prior year driven by increased transfers to the Local Government Distributive Fund (\$107 million). The increase was offset by the \$250 million one-time transfer of fiscal year 2005 chargebacks and sweeps held until fiscal year 2006.

FINANCIAL POSITION

The State's fiscal year-end cash balance improved \$52 million versus the fiscal year-end cash balance for fiscal year 2006. Accounts payable decreased by \$105 million. Collectively, the General Funds liquidity position, defined as cash minus accounts payable, improved by \$157 million over fiscal year 2006.

Table II
FINANCIAL POSITION: SELECT MEASURES
FY2006 vs. FY2007
(unaudited in millions)

	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>
OPERATING CASH BALANCE			
General Funds Cash Balance (6/30)	\$ 590	\$ 642	\$ 52
Budget Stabilization Fund Cash Balance (6/30)	276	276	-
Total Cash Balance (6/30)	<u>\$ 866</u>	<u>\$ 918</u>	<u>\$ 52</u>
KEY CURRENT LIABILITIES			
General Funds Accounts Payable (6/30) *	\$ 881	\$ 776	\$ (105)
Income Tax Refunds Payable (6/30):	-	-	-
Total Current Liabilities	<u>\$ 881</u>	<u>\$ 776</u>	<u>\$ (105)</u>
CASH BALANCE OF INCOME TAX REFUND FUND	<u>\$ 122</u>	<u>\$ 156</u>	<u>\$ 34</u>

*The fiscal year 2007 accounts payable amount is an estimate. Audited results will be available at a subsequent date.

FISCAL YEAR 2007 BUDGETARY COMPARISONS

The fiscal year 2007 budget was based on General Fund revenues originally projected at \$28,330 million and subsequently adjusted to \$28,493 million. The adjusted budget was reflected in the fiscal year 2008 proposed Budget submitted to the General Assembly in March 2007. Table III summarizes the final adjusted budget versus fiscal year 2007 actual performance.

As detailed in Appendix III, fiscal year 2007 actual General Fund sources (excluding short-term borrowing and Hospital Provider Fund pass-through cash flows) totaled \$28,640 million, \$147 million or 0.5% more than the final budget. General Funds disbursements on a budget basis, including Transfers Out, were \$122 million (0.4%) greater than budgeted amounts primarily due to a reduction in year end accounts payable from fiscal 2006.

Table III
BUDGETARY COMPARISONS - HIGHLIGHTS*
FY 2007

(unaudited in millions)

	FY07 <u>Budget</u>	FY07 <u>Actual</u>	<u>Change</u>	<u>% Change</u>
OPERATIONS				
General Funds Revenues	\$ 26,320	\$ 26,394	\$ 74	0.3%
Operating Transfers In*	2,173	2,246	73	3.4%
Total Operating Receipts	\$ 28,493	\$ 28,640	\$ 147	0.5%
General Funds Expenditures, Budget Basis**	\$ 25,468	\$ 25,499	\$ 31	0.1%
Operating Transfers Out *	2,882	2,973	91	3.2%
Total Operating Disbursements, Budget Basis***	\$ 28,350	\$ 28,472	\$ 122	0.4%
Total Other Financial Sources (Uses)	\$ (11)	\$ (11)	-	0.0%
Cash Basis Operating Increase/(Decrease)	\$ 132	\$ 157	\$ 25	19.2%
FINANCIAL POSITION				
General Funds Cash Balance (7/1)	\$ 590	\$ 590	-	0.0%
Budget Basis Operating Increase/(Decrease)	132	157	25	19.2%
Accounts Payable Increase/(Decrease)****	(31)	(105)	(74)	238.7%
General Funds Cash Balance (6/30)	691	642	(49)	-7.1%
Budget Stabilization Fund Cash Balance	276	276	-	0.0%
Total Cash Balance (6/30)	\$ 967	\$ 918	\$ (49)	-5.0%
Accounts Payable (6/30)	\$ 850	\$ 776	\$ (74)	-8.7%

*Excludes receipts from Short-Term Borrowing and subsequent disbursements to repay those borrowings.

**Actual reflects Cash Basis total of \$25,604 million less change in Accounts Payable of \$105 million.

***Actual reflects Cash Basis total of \$28,577 million less change in Accounts Payable of \$105 million.

****Ending Accounts Payable balance at 6/30/06 was \$881 million.

**APPENDIX I
CASH RECEIPTS
General Funds
Fiscal Years 2006-2007
(unaudited in millions)**

	Fiscal Year		Change	
	FY 2006	FY 2007	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 497	\$ 590	\$ 93	18.7%
Operating Revenue Receipts:				
State Sources, Cash Receipts:				
Gross Individual Income Tax	\$ 9,568	\$ 10,425	\$ 857	9.0%
Gross Corporate Income Tax	1,784	2,120	336	18.8%
Less Deposits to Income Tax Refund Fund				
Individual Income Tax	(933)	(1,017)	(84)	9.0%
Corporate Income Tax	(356)	(370)	(14)	3.9%
Net Income Taxes	\$ 10,063	\$ 11,158	\$ 1,095	10.9%
Sales Taxes	\$ 7,092	\$ 7,136	\$ 44	0.6%
Other Sources:				
Public Utility Taxes	\$ 1,074	\$ 1,131	\$ 57	5.3%
Cigarette Taxes	400	350	(50)	-12.5%
Inheritance Tax (gross)	272	264	(8)	-2.9%
Liquor Gallonage Taxes	152	156	4	2.6%
Insurance Tax and Fees	317	310	(7)	-2.2%
Corporation Franchise Tax & Fees	181	193	12	6.6%
Investment Income	153	204	51	33.3%
Cook County IGT	350	307	(43)	-12.3%
Riverboat Gambling Taxes	4	-	(4)	-100.0%
Other	475	482	7	1.5%
Total, Other Sources	\$ 3,378	\$ 3,397	\$ 19	0.6%
Total, State Revenues (Cash Receipts)	\$ 20,533	\$ 21,691	\$ 1,158	5.6%
Federal Cash Receipts	\$ 4,725	\$ 4,703	\$ (22)	-0.5%
Total, Revenues	\$ 25,258	\$ 26,394	\$ 1,136	4.5%
Transfers In:				
Lottery Fund	\$ 670	\$ 622	\$ (48)	-7.2%
State Gaming Fund	685	685	-	0.0%
Other State Funds	746	939	193	25.9%
Total, Transfers In	\$ 2,101	\$ 2,246	\$ 145	6.9%
TOTAL, RECEIPTS (REVENUES AND TRANSFERS IN)	\$ 27,359	\$ 28,640	\$ 1,281	4.7%

**APPENDIX II
CASH FLOW SUMMARY
General Funds
Fiscal Years 2006-2007
(unaudited in millions)**

	Fiscal Year		Change	
	FY 2006	FY 2007	Amount	Percent
TOTAL, OPERATING CASH RECEIPTS	\$ 27,359	\$ 28,640	\$ 1,281	4.7%
(See Appendix I)				
Operating Disbursements:				
Awards and Grants:				
State Board of Education	\$ 6,010	\$ 6,409	\$ 399	6.6%
Healthcare and Family Services	6,149	6,502	353	5.7%
Human Services	2,865	2,874	9	0.3%
Teachers Retirement	608	813	205	33.7%
Higher Education	795	860	65	8.2%
All Other Grants	1,189	1,237	48	4.0%
Total, Awards and Grants	\$ 17,616	\$ 18,695	\$ 1,079	6.1%
Operations:				
Other Agencies	\$ 4,986	\$ 5,252	\$ 266	5.3%
Higher Education	1,404	1,404	-	0.0%
Total, Operations	\$ 6,390	\$ 6,656	\$ 266	4.2%
All Other (Includes Prior Year Adjustments)	17	19	2	11.8%
Vouchers Payable Adjustment (Change in Bills On Hand)	\$ 170	\$ 234	\$ 64	N/A
TOTAL, OPERATING EXPENDITURES	\$ 24,193	\$ 25,604	\$ 1,411	5.8%
Regular Transfers Out	3,059	2,973	(86)	-2.8%
TOTAL, OPERATING EXPENDITURES AND TRANSFERS OUT	\$ 27,252	\$ 28,577	\$ 1,325	4.9%
OPERATING CASH INCREASE/(DECREASE) ¹	\$ 107	\$ 63	\$ (44)	-41.1%
Other Financial Sources (Uses)				
Short-Term Borrowing Proceeds	\$ 1,000	\$ 900	\$ (100)	
Transfers to Repay Short-Term Borrowing ²	(1,290)	(287)	1,003	-77.8%
Transfers from Budget Stabilization Fund	276	276	-	0.0%
Net Cash Flow Transfers- Hospital Provider Fund	-	(900)	(900)	
Total Other Financial Sources (Uses)	\$ (14)	\$ (11)	\$ 3	
CASH BASIS INCREASE (DECREASE) ³	\$ 93	\$ 52	\$ (41)	
AVAILABLE CASH BALANCE, BEGINNING	\$ 497	\$ 590	\$ 93	
AVAILABLE CASH BALANCE, ENDING	\$ 590	\$ 642	\$ 52	

¹ Total Operating Cash Receipts minus Total Operating Expenditures and Transfers Out.

² FY2007 transfers to reflect \$900 million repaid out of Hospital Provider Fund, for comparability purposes.

³ Operating Cash Increase (Decrease) plus (minus) Total Other Financial Sources (Uses).

APPENDIX III
FY2007 GENERAL FUNDS
OPERATING CASH FLOWS - GENERAL FUNDS
Enacted Budget vs. Actual
(unaudited in millions)

	FY2007		Actual Over (Under) Budget	
	Enacted Budget	Actual	Amount	Percent
Cash Basis Receipts:				
State Revenues:				
Gross Individual Income Tax	\$ 10,117	\$ 10,425	\$ 308	3.0%
Gross Corporate Income Tax	2,046	2,120	74	3.6%
Deposits to Income Tax Refund Fund	(1,345)	(1,387)	(42)	3.1%
Total, Net Income Taxes	\$ 10,818	\$ 11,158	\$ 340	3.1%
Sales Taxes	\$ 7,356	\$ 7,136	\$ (220)	-3.0%
Other State Revenues:				
Public Utility Taxes	\$ 1,110	\$ 1,131	\$ 21	1.9%
Cigarette Taxes	350	350	-	0.0%
Inheritance Tax (Gross)	255	264	9	3.5%
Liquor Gallonage Taxes	153	156	3	2.0%
Insurance Tax and Fees	322	310	(12)	-3.7%
Corp. Franchise Tax and Fees	186	193	7	3.8%
Investment Income	185	204	19	10.3%
Cook County IGT	307	307	-	0.0%
Riverboat Gambling Taxes	-	-	-	0.0%
Other	475	482	7	1.5%
Total, Other State Revenues	\$ 3,343	\$ 3,397	\$ 54	1.6%
Total, State Revenues	\$ 21,517	\$ 21,691	\$ 174	0.8%
Federal Cash Receipts	\$ 4,803	\$ 4,703	\$ (100)	-2.1%
Total, Revenues	\$ 26,320	\$ 26,394	\$ 74	0.3%
Transfers In:				
State Lottery Fund	\$ 631	\$ 622	\$ (9)	-1.4%
State Gaming Fund	692	685	(7)	-1.0%
Other State Funds*	850	939	89	10.5%
Federal Transfers In	-	-	-	N/A
Total, Transfers In	\$ 2,173	\$ 2,246	\$ 73	3.4%
Total, Revenues and Transfers In	\$ 28,493	\$ 28,640	\$ 147	0.5%
Cash Basis Disbursements:				
Awards and Grants:				
State Board of Education	\$ 6,486	\$ 6,409	\$ (77)	-1.2%
Healthcare and Family Services	6,548	6,502	(46)	-0.7%
Human Services	2,989	2,874	(115)	-3.8%
Teachers Retirement	813	813	-	0.0%
Higher Education	863	860	(3)	-0.3%
All Other Grants	1,436	1,237	(199)	-13.9%
Total, Awards and Grants	\$ 19,135	\$ 18,695	\$ (440)	-2.3%
Operations:				
Other Agencies	\$ 5,460	\$ 5,252	\$ (208)	-3.8%
Higher Education	1,408	1,404	(4)	-0.3%
Total, Operations	6,868	6,656	(212)	-3.1%
Less Governor's Savings Initiatives	-	-	-	
Less Lapsed Appropriations	(535)	-	535	
Regular Transfers Out*	2,882	2,973	91	3.2%
All Other (Includes Prior Year Adjustments)	-	19	19	
Vouchers Payable Adjustment (Change in Bills On Hand)	-	234	234	
Total, Expend. & Transfers Out: Cash Basis	\$ 28,350	\$ 28,577	\$ 227	0.8%

*Transfers In and Transfers Out exclude Budget Stabilization Fund transfer of \$276 million.

Source: Illinois Office of the Comptroller and GOMB.