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GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2008 THIRD QUARTER FINANCIAL REVIEW

Table I
OPERATING HIGHLIGHTS*
Third Quarter
FY2007 vs. FY2008
(in millions)

	Third Quarter				Year to Date			
	<u>FY 07</u>	<u>FY 08</u>	<u>Change</u>	<u>% Change</u>	<u>FY 07</u>	<u>FY 08</u>	<u>Change</u>	<u>% Change</u>
OPERATIONS								
General Funds Revenues	\$ 6,926	\$ 6,908	\$ (18)	-0.3%	\$ 18,787	\$ 19,455	\$ 668	3.6%
Operating Transfers In	422	324	(98)	-23.2%	1,406	1,302	(104)	-7.4%
Total Revenues and Operating Transfers In	<u>\$ 7,348</u>	<u>\$ 7,232</u>	<u>\$ (116)</u>	<u>-1.6%</u>	<u>\$ 20,193</u>	<u>\$ 20,757</u>	<u>\$ 564</u>	<u>2.8%</u>
Total Operating Receipts	\$ 7,348	\$ 7,232	\$ (116)	-1.6%	\$ 20,193	\$ 20,757	\$ 564	2.8%
General Funds Expenditures	\$ 7,066	\$ 6,916	\$ (150)	-2.1%	\$ 18,959	\$ 19,246	\$ 287	1.5%
Operating Transfers Out	697	801	104	14.9%	2,086	2,219	133	6.4%
Total Operating Disbursements	<u>\$ 7,763</u>	<u>\$ 7,717</u>	<u>\$ (46)</u>	<u>-0.6%</u>	<u>\$ 21,045</u>	<u>\$ 21,465</u>	<u>\$ 420</u>	<u>2.0%</u>
Change in Operating Cash-Increase(Decrease)	<u>\$ (415)</u>	<u>\$ (485)</u>	<u>\$ (70)</u>	<u>N/A</u>	<u>\$ (852)</u>	<u>\$ (708)</u>	<u>\$ 144</u>	<u>N/A</u>

*Refer to Appendix I for details.

OPERATING HIGHLIGHTS

As illustrated in Table I and detailed in Appendix I, fiscal year 2008 third quarter general revenues total \$6,908 million or \$18 million (.3%) below the fiscal year 2007 third quarter level. Total fiscal year 2008 third quarter Revenues and Operating Transfers In were \$7,232 million, a \$116 million (1.6%) decrease from the comparable period of fiscal year 2007. The decrease was primarily attributable to a decline in federal revenues of \$364 million (24.9%), offset by favorable personal and corporate income tax collections, public utility taxes, and inheritance taxes for the quarter. Year-to-date revenues continue to show a weakening revenue picture as anticipated. Year-to-date total operating receipts are up 2.8% over fiscal year 2007 with a 7.4% decline in Transfers In due to lack of fund transfers and 3.6% growth in revenues.

Total third quarter operating disbursements decreased \$46 million (0.6%) compared to the third quarter of fiscal year 2007. Year-to-date disbursements have increased marginally by 2.0%.

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's results are generally offset by corresponding timing issues in subsequent periods.

OPERATING CASH RECEIPTS

Operating Cash Receipts, including Other Transfers In and Federal Sources are detailed below.

- **Income Taxes (\$285 million increase):** Gross Individual Income Tax collections were up by 5.2% or \$146 million from the third quarter of fiscal year 2007. Gross Corporate Income Tax collections were up by 22.3% or \$100 million, compared to the same period a year ago due to the implementation of a new automated revenue collection system. Lastly, the increase in Net Income Tax revenues is attributed partially to the change in the gross allocation of receipts to the Refund Fund.
- **Sales Taxes (\$3 million increase):** Sales Tax growth was marginal at 0.2% for the third quarter of fiscal 2008 as compared to fiscal year 2007, which is a reflection of the nation's and the state's slowing economy.
- **Public Utility Taxes (\$22 million increase):** The 6.9% increase can be largely attributed to an increase in electricity tax receipts resulting from the expiration of the electric rate freeze effective January 1, 2007, as well as a colder winter as compared to the same period in fiscal year 2007.
- **Investment Income (\$14 million decrease):** The 27.5% decline is attributable to decreased cash balances in fiscal year 2008.
- **Cook County Intergovernmental Transfer (IGT) (\$10 million decrease):** Due to a previously scheduled reduction by the Federal Government, the IGT is expected to generate \$20 million less for the entire fiscal year.
- **Gaming and Lottery (\$22 million decrease):** Gaming revenues decreased by \$16 million, or 16%. Lottery transfers declined slightly by \$6 million (3.4%) compared to third quarter fiscal 2007, due to fewer large jackpots for the Mega Millions game that attracts additional consumers when the jackpot amount is sizeable.
- **All Other Sources (\$60 million increase):** The increase is largely attributed to an Inheritance Tax increase of \$42 million and Insurance Tax and Fees increasing by \$29 million. Inheritance tax collections by its very nature tends to be largely random and unpredictable. These increases were offset by an \$11 million decrease in Other Sources compared to third quarter of fiscal year 2007.
- **Other Transfers In (\$76 million decrease):** Fiscal year 2008 third quarter Other Transfers In decreased 52.1% due to over \$100 million in non-recurring fund transfers during the third quarter of fiscal year 2007.
- **Federal Sources (\$364 million decrease):** The 24.9% decrease is attributable to timing differences associated with federal reimbursements for Medicaid spending. During the third quarter of fiscal year 2007, short-term borrowing proceeds were used to pay down Medicaid billings which generated additional federal reimbursements. This short-term borrowing activity will occur in the fourth quarter of fiscal year 2008.

OPERATING DISBURSEMENTS AND TRANSFERS OUT

As further detailed in Appendix II and discussed below, total operations disbursements during the third quarter of fiscal year 2008 were \$7,717 million, a decrease of \$46 million or 0.6% from the previous year.

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

Operating Highlights:

- **Award and Grants (\$169 million decrease):** Spending for Awards and Grants in the third quarter is down 3.4%, indicative of the state's response to the slowing economy. Most of the decrease is attributable to a timing difference in Medicaid spending during the third quarter and a decline in Department of Transportation spending. These spending reductions are offset by increased Teachers' Retirement System contributions, up \$76 million (37.4%) associated with the budgeted increases by the General Assembly in the pension funding plan, and Elementary & Secondary Education spending increases of \$177 million (11.3%). Human Services spending is up \$37 million (5.2%) due to rate increases for child care and long term care providers.
- **Operations (\$105 million increase):** Fiscal year 2008 third quarter expenditures for operations increased \$105 million (6.2%). Higher Education increased by \$60 million (16.3%) largely due to increases in personal services spending from the University of Illinois. Other agencies operations spending increased \$45 million (3.4%), primarily due to increased costs associated with collective bargaining COLA increases, budgeted increases in the retirement funding plan (increased 5.0% from fiscal year 2007 rate) and group insurance increases.

FINANCIAL POSITION

Third quarter fiscal year 2008, total disbursements exceeded total receipts by \$485 million. Year-to-date fiscal 2008 total disbursements exceeded total receipts by \$432 million. The State continues to closely monitor receipts and disbursements for the remainder of this fiscal year but estimates a \$750 million budget gap will occur if no steps are taken by the General Assembly to increase revenues or to support decreased spending.

The General Funds cash balance at March 31, 2008 was \$104 million, \$199 million less (67.5%) than the March 31, 2007 level of \$303 million due to the cash flow transfer from the Hospital Provider Fund in fiscal 2007.

General Funds accounts payable decreased from \$1,720 million as of December 31, 2007 to \$1,416 million on March 31, 2008, \$304 million (18%) less than the December 31, 2007 balance. Increased spending of \$420 million during the first three quarters of fiscal year 2008 over fiscal year 2007 has impacted the State's cash flow position resulting in higher accounts payable balances. As a result, the net March 31st working capital position (cash less accounts payable) declined \$679 million as compared to 2007.

Table II
SELECTED FINANCIAL HIGHLIGHTS
Third Quarter
FY2007 vs. FY2008
(in millions)

	FY 07	FY 08	Change
CASH BALANCE			
General Funds Cash Balance (12/31)	\$ 429	\$ 589	\$ 160
Change in Operating Cash Increase(Decrease) for Third Quarter*	(415)	(485)	(70)
Short-term Borrowing Proceeds	-	-	-
Cash Flow Transfer - Hospital Provider Fund	289	-	-
Transfer In from Budget Stabilization Fund	-	-	-
General Funds Cash Balance (3/31)**	303	104	(199)
Budget Stabilization Fund Cash Balance (3/31)	-	-	-
Total Cash Balance (3/31)	\$ 303	\$ 104	\$ (199)
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (3/31)***	\$ 936	\$ 1,416	\$ 480
Income Tax Refunds Payable (3/31):			
Corporate****	-	-	-
Total Select Current Liabilities	\$ 936	\$ 1,416	\$ 480
Income Tax Refund Fund Cash Balance	\$ 130	\$ 149	\$ 19

* See Table I

** See Appendix II

*** Source: Office of the Comptroller

**** FY08 information unavailable due to second quarter implementation of GenTax system.

Information will be available and updated for the Fiscal Year 2008 Fourth Quarter Report.

**APPENDIX I
GENERAL FUNDS
CASH RECEIPTS
Third Quarter FY07 vs. FY08
(in millions)**

	FY 2007	FY2008	Change	
			Amount	Percent
Cash Basis Receipts:				
State Revenues:				
Gross Individual Income Tax	\$ 2,794	\$ 2,941	\$ 146	5.2%
Gross Corporate Income Tax	\$ 450	\$ 550	\$ 100	22.3%
Deposits to Income Tax Refund Fund	\$ (351)	\$ (313)	\$ 38	-10.8%
Total, Net Income Taxes	\$ 2,893	\$ 3,178	\$ 285	9.8%
Sales Taxes	\$ 1,682	\$ 1,685	\$ 3	0.2%
Other State Revenues:				
Public Utility Taxes	\$ 317	\$ 339	\$ 22	6.9%
Cigarette Taxes	\$ 88	\$ 88	\$ -	0.0%
Inheritance Tax (gross)	\$ 49	\$ 91	\$ 42	85.7%
Liquor Gallonage Taxes	\$ 37	\$ 38	\$ 1	2.7%
Insurance Tax and Fees	\$ 55	\$ 84	\$ 29	52.7%
Corp. Franchise Tax and Fees	\$ 51	\$ 50	\$ (1)	-2.0%
Investment Income	\$ 51	\$ 37	\$ (14)	-27.5%
Cook County IGT	\$ 116	\$ 106	\$ (10)	-8.6%
Other	\$ 127	\$ 116	\$ (11)	-8.7%
Total, Other State Revenues	\$ 891	\$ 949	\$ 58	6.5%
Total, State Revenues	\$ 5,466	\$ 5,812	\$ 346	6.3%
Federal Revenues:	\$ 1,460	\$ 1,096	\$ (364)	-24.9%
Total, Revenues	\$ 6,926	\$ 6,908	\$ (18)	-0.3%
Transfers In:				
State Lottery Fund	\$ 176	\$ 170	\$ (6)	-3.4%
State Gaming Fund	\$ 100	\$ 84	\$ (16)	-16.0%
Other State Transfers In	\$ 146	\$ 70	\$ (76)	-52.1%
Total, Transfers In	\$ 422	\$ 324	\$ (98)	-23.2%
Total, Operating Cash Receipts	\$ 7,348	\$ 7,232	\$ (116)	-1.6%
Short-Term Borrowing	\$ 900	\$ -	\$ (900)	-100.0%
Cash Flow Transfer - Hospital Provider Fund	\$ 289	\$ -	\$ (289)	-100.0%
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%
TOTAL, CASH RECEIPTS	\$ 8,537	\$ 7,232	\$ (1,305)	-15.3%

APPENDIX II
GENERAL FUNDS
Cash Flow Summary
Third Quarter FY07 vs. FY08
(in millions)

	Third Quarter		Change		YTD		Change	
	FY 2007	FY 2008	Amount	Percent	FY 2007	FY 2008	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 429	\$ 589	\$ 160		\$ 590	\$ 642	\$ 52	
Total Revenues	\$ 6,926	\$ 6,908	\$ (18)	-0.3%	\$ 18,787	\$ 19,455	\$ 668	3.6%
Total Transfers In	\$ 422	\$ 324	\$ (98)	-23.2%	\$ 1,406	\$ 1,302	\$ (104)	-7.4%
Total, Operating Cash Receipts	\$ 7,348	\$ 7,232	\$ (116)	-1.6%	\$ 20,193	\$ 20,757	\$ 564	2.8%
Short-term Borrowing Proceeds	\$ 900	\$ -	\$ (900)	-100.0%	\$ 900	\$ 1,200	\$ 300	33.3%
Cash Flow Transfer - Hospital Provider Fund	\$ 289	\$ -	\$ (289)	-100.0%	\$ 289	\$ 300	\$ 11	3.8%
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%	\$ 276	\$ 276	\$ -	0.0%
TOTAL, CASH RECEIPTS	\$ 8,537	\$ 7,232	\$ (1,305)	-15.3%	\$ 21,658	\$ 22,533	\$ 875	4.0%
Disbursements:								
Awards and Grants:								
State Board of Education	\$ 1,572	\$ 1,749	\$ 177	11.3%	\$ 4,482	\$ 4,750	\$ 268	6.0%
Department of Healthcare & Family Services	\$ 1,825	\$ 1,417	\$ (408)	-22.4%	\$ 5,304	\$ 5,199	\$ (105)	-2.0%
Human Services	\$ 716	\$ 753	\$ 37	5.2%	\$ 2,289	\$ 2,387	\$ 98	4.3%
Teachers Retirement	\$ 203	\$ 279	\$ 76	37.4%	\$ 610	\$ 837	\$ 227	37.2%
Higher Education (incl. retirement)	\$ 317	\$ 281	\$ (36)	-11.4%	\$ 725	\$ 686	\$ (39)	-5.4%
All Other Grants	\$ 325	\$ 310	\$ (15)	-4.6%	\$ 1,014	\$ 1,156	\$ 142	14.0%
Total, Awards and Grants	\$ 4,958	\$ 4,789	\$ (169)	-3.4%	\$ 14,424	\$ 15,015	\$ 591	4.1%
Operations:								
Other Agencies	\$ 1,339	\$ 1,384	\$ 45	3.4%	\$ 3,928	\$ 4,232	\$ 304	7.7%
Higher Education	\$ 368	\$ 428	\$ 60	16.3%	\$ 1,180	\$ 1,271	\$ 91	7.7%
Total, Operations	\$ 1,707	\$ 1,812	\$ 105	6.2%	\$ 5,108	\$ 5,503	\$ 395	7.7%
Regular Transfers Out	\$ 697	\$ 801	\$ 104	14.9%	\$ 2,086	\$ 2,219	\$ 133	6.4%
All Other (Includes Prior Year Adjustments)	\$ 4	\$ (1)	\$ (5)	-125.0%	\$ 11	\$ 8	\$ (3)	-27.3%
Vouchers Payable Adjustment	\$ 397	\$ 316	\$ (81)	-20.4%	\$ (584)	\$ (1,280)	\$ (696)	119.2%
Total, Operating Disbursements	\$ 7,763	\$ 7,717	\$ (46)	-0.6%	\$ 21,045	\$ 21,465	\$ 420	2.0%
Cash Flow Transfer - Hospital Provider Fund	\$ 900	\$ -	\$ (900)	-100.0%	\$ 900	\$ 1,200	\$ 300	33.3%
Transfers to Repay Short-Term Borrowing	\$ -	\$ -	\$ -	0.0%	\$ -	\$ 300	\$ 300	0.0%
TOTAL, DISBURSEMENTS	\$ 8,663	\$ 7,717	\$ (946)	-10.9%	\$ 21,945	\$ 22,965	\$ 1,020	4.6%
CASH BASIS INCREASE (DECREASE)	\$ (126)	\$ (485)	\$ (359)	285.0%	\$ (287)	\$ (432)	\$ (145)	50.5%
AVAILABLE CASH BALANCE, BEGINNING	\$ 429	\$ 589	\$ 160	37.3%	\$ 590	\$ 642	\$ 52	8.8%
AVAILABLE CASH BALANCE, ENDING	\$ 303	\$ 104	\$ 6 (199)	-65.7%	\$ 303	\$ 210	\$ (93)	-30.7%