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MANAGEMENT AND BUDGET

**FISCAL YEAR 2009 SECOND QUARTER FINANCIAL REVIEW**

**GENERAL FUNDS HIGHLIGHTS**

Fiscal year 2009 second quarter general funds show a **net operating loss of \$2.5 billion** driven by declining revenues and increased expenditures as compared to fiscal year 2008 second quarter.

**Table I**  
**GENERAL FUNDS HIGHLIGHTS**  
**Second Quarter**  
**FY2008 vs. FY2009**  
(in millions)

	<b>YTD</b>			
	<b>Dec-08</b>	<b>Dec-09</b>	<b>\$ Change</b>	<b>% Change</b>
General Funds Revenues	\$ 12,441	\$ 12,222	\$ (219)	-2%
Transfers In	977	720	(257)	-26%
<b>Total Receipts</b>	<b>13,418</b>	<b>12,942</b>	<b>(476)</b>	<b>-4%</b>
General Funds Expenditures	13,158	13,834	676	5%
Transfers Out	1,541	1,656	115	7%
<b>Total Expenditures</b>	<b>14,699</b>	<b>15,490</b>	<b>791</b>	<b>5%</b>
<b>Net Operating Income/(Loss)</b>	<b>\$ (1,281)</b>	<b>\$ (2,548)</b>	<b>\$ (1,267)</b>	<b>99%</b>

General revenues total \$12,222 million; a decline of \$219 million (2%) below the fiscal year 2008 second quarter level. Indicative of nationwide trends, the State is experiencing significant declines in base revenues and the decline is expected to continue. Fiscal year 2009 second quarter Revenues and Operating Transfers In total \$720 million, a \$257 million (26%) decrease compared to the second quarter of fiscal year 2008. Similar to the first quarter results, the State's declining economic condition is evidenced by continued declining growth rates in several revenue sources, as detailed in Table II.

Fiscal year 2009 second quarter general fund expenditures totaled \$13,834; \$676 million above second quarter fiscal year 2008. The 5% growth in spending over second quarter fiscal year 2008 is the result of concerted efforts to control spending despite the pressures of retirement rate and collective bargaining increases and growing education and healthcare expenditures.

**GENERAL FUNDS REVENUE SUMMARY**

General Funds Revenues, including Transfers In and Federal Revenues, net of short-term borrowing proceeds, for the second quarter of fiscal year 2009 decreased by \$476 million. Compared to budget projections, revenues are down \$440 million, as noted in Table II. The recession has impacted all economy-driven revenues, as noted below.

**Table II**  
**GENERAL FUNDS REVENUES**  
**Second Quarter**  
**FY2008 vs. FY2009**  
(in millions)

Source	Year to Date Actual				Year to Date Budget			
	2nd Qtr FY08	2nd Qtr FY09	YTD Difference		FY09 YTD Budget	FY09 YTD Actual	Variance	
	YTD	YTD	Amount	%			Amount	%
Gross Individual Income Tax	4,531	4,561	30	0.7%	4,606	4,564	(42)	-0.9%
Less: Deposits to ITRF	(442)	(445)	(3)	0.7%	(449)	(445)	4	-0.9%
Net Individual Income Tax	4,089	4,119	30	0.7%	4,157	4,119	(38)	-0.9%
Gross Corporate Income	775	743	(32)	-4.1%	763	743	(20)	-2.6%
Less: Deposits to ITRF	(136)	(130)	6	-4.4%	(133)	(130)	3	-2.6%
Net Corporate Income Tax	639	613	(26)	-4.1%	629	613	(16)	-2.6%
Sales	3,726	3,645	(81)	-2.2%	3,664	3,645	(19)	-0.5%
Public Utility	514	559	45	8.8%	529	559	30	5.7%
Cigarette	175	175	0	0.0%	179	175	(4)	-2.4%
Inheritance	199	144	(55)	-27.6%	137	144	7	5.2%
Liquor	82	82	0	0.0%	83	82	(1)	-0.6%
Insurance	114	139	25	21.9%	145	139	(6)	-4.3%
Corporate Franchise	116	106	(10)	-8.6%	101	106	5	4.7%
Investment Income	117	33	(84)	-71.8%	39	33	(6)	-16.3%
Cook County IGT	87	65	(22)	-25.3%	85	65	(20)	-23.5%
Other (excluding Gaming Taxes)	213	197	(16)	-7.5%	224	197	(27)	-12.2%
<b>TOTAL, STATE REVENUES</b>	<b>10,074</b>	<b>9,878</b>	<b>(194)</b>	<b>-1.9%</b>	<b>9,975</b>	<b>9,878</b>	<b>(96)</b>	<b>-1.0%</b>
Federal Revenues	2,367	2,343	(24)	-1.0%	2,497	2,343	(154)	-6.2%
Transfers In:	977	720	(257)	-26.3%	911	721	(190)	-63.2%
Lottery	307	294	(13)	-4.2%	305	294	(11)	-3.6%
Gaming/Gaming Taxes	370	250	(120)	-32.4%	308	250	(58)	-18.9%
Other (including Chargebacks)	301	177	(124)	-41.2%	298	177	(121)	-40.7%
<b>TOTAL, REVENUES AND TRANSFERS IN</b>	<b>13,419</b>	<b>12,942</b>	<b>(477)</b>	<b>-3.6%</b>	<b>13,382</b>	<b>12,942</b>	<b>(440)</b>	<b>-3.3%</b>
<b>TOTAL, RECEIPTS</b>	<b>13,419</b>	<b>12,942</b>	<b>(477)</b>	<b>-3.6%</b>	<b>13,382</b>	<b>12,942</b>	<b>(440)</b>	<b>-3.3%</b>

- **Income Taxes (\$4 million increase):** Through the second quarter, the taxes are level with fiscal year 2008. However, historical observations, specifically related to withholdings signal a continuous economic slowdown. Individual Income Tax collections have experienced a .7% growth rate in the second quarter of fiscal year 2008. Corporate Income Tax collections, however, continue to decline, dropping by 4.1% from the prior fiscal year.
- **Sales Taxes (\$81 million decrease):** Due to the recession, December sales tax receipts alone fell \$68 million. Sales tax receipts through six months decreased \$81 million or 2.2%. In addition, a minor adjustment to sales tax deposits last year accounted for some of the decrease in December receipts this year.
- **Public Utility Taxes (\$45 million increase):** The 8.8% increase is largely attributed to an increase in electric excise tax receipts. Harsh winter weather is likely the rationale for the increase.
- **Investment Income (\$84 million decrease):** The 71.8% decline is mostly attributable to declining cash balances and dramatic decline in the capital markets. The General Funds available cash balance on December 31<sup>st</sup> was \$215 million, \$375 million lower than the prior year balance of \$589 million.
- **Gaming and Lottery (\$133 million decrease):** Gaming revenues decreased by \$120 million, or 32.4%. Riverboat gaming revenues may have been impacted adversely by the Smoke Free Illinois Act and the slowing economy, particularly because of increasing unemployment. In addition, part of the decline in Gaming Fund transfers is due to a delay in the final transfer to GRF for December 2008. Lottery transfers decreased as well by \$13 million or 4.2%.

- **All Other Sources (\$78 million decrease):** Cigarette Taxes and Liquor Gallonage Taxes remain flat to first quarter of fiscal year 2008. Inheritance Tax significantly decreased by \$55 million (27.6%), Corporate Franchise Taxes and Fees decreased by \$10 million (8.6%), Cook County IGT funds were down \$22 million or 25.3%, and Other Sources decreased by \$16 million (7.5%) due to reduction in the collection of license, registrations, and other fees.
- **Federal Revenues (\$24 million decrease):** The 14.2% decrease in federal revenue is due to a decline in Medicaid reimbursements. The Comptroller is holding close to \$200 million in Medicaid payables at this time. This decrease was partially offset by an increase in TANF expenditure reimbursements.
- **Other Transfers In (\$124 million decrease):** In fiscal year 2008, \$80 million was transferred from the Hospital Provider Fund as part of the hospital assessment program and \$70 million was transferred from the Income Tax Refund Fund during the first half of the year. Due to the federal government approval of the Hospital Assessment in December 2008, \$81 million is anticipated to be transferred in by the end of FY09.

## GENERAL FUNDS EXPENDITURES SUMMARY

Table III details general fund expenditures for the second quarter of fiscal year 2009. General Fund expenditures for the second quarter of fiscal year 2009 totaled \$13,835 million, an increase of \$678 million (5.2%) from the previous year.

**Table III**  
**GENERAL FUND EXPENDITURES**  
**Second Quarter**  
**FY2008 vs FY2009**  
(in millions)

	<u>FY2008</u>	<u>FY2009</u>	<u>Change</u>
Enacted Appropriation	\$27,538.0	\$28,706.0	\$ 1,168.0
Expend YTD	\$13,157.0	\$13,835.0	\$ 678.0
Percent Spent	48%	49%	1%

Overall growth in operating expenditures across all agencies is due to costs associated with collective bargaining, cost of living adjustments (COLA), and additional retirement increases. The retirement rate increased 22% from fiscal year 2008; from 17.196% to 21.049%.

Most agencies are aligned with the point in time spending limit of 50%, however, specific isolated pressures within the state budget contribute to expenditures that exceed this limitation. The majority of community college and university spending occurs in the first half of the fiscal year. Community college grants totaling \$70 million were released during the first quarter of fiscal year 2009. These same grants were released in the second quarter of fiscal year 2008. Moreover, the Teacher's Retirement System has exceeded the recommended spending limit due to a \$400 million increase in the state's certified contribution rate that was not approved by the General Assembly; therefore spending against appropriations is greater than one would project at this point in the year. This trend will continue. Revenue shortfalls in federal reimbursements have created the need for the Department of Children and Family Services (DCFS) to shift certain adoption care and foster care expenditures to GRF.

## FINANCIAL POSITION

The General Funds cash balance at December 31, 2008, which includes the annual cash flow borrowing of \$276 million from the Budget Stabilization Fund and \$1,400 billion in proceeds from Short-Term Borrowing, was \$215 million, a \$374 million (63.5%) decrease from the December 31, 2007 level of \$589 million.

The \$374 million decrease in available cash as compared to second quarter fiscal 2008 resulted in a 4.2% increase in accounts payable as of December 31, 2008.

**Table IV**  
**FINANCIAL POSITION**  
**Second Quarter**  
**FY2008 vs. FY2009**  
(in millions)

	<u>FY 08</u>	<u>FY 09</u>	<u>Change</u>
<b>CASH BALANCE</b>			
General Funds Cash Balance (9/30)	\$ 589	\$ 215	\$ (374)
Change in Operating Cash for 2nd Qtr	(1,648)	(1,649)	(1)
Short-term Borrowing Proceeds	1,200	1,400	200
Transfer In from Budget Stabilization Fund	276	276	-
General Funds Cash Balance (12/30)	417	242	(175)
Budget Stabilization Fund Cash Balance (12/30)	-	-	-
<b>Total Cash Balance (9/30)</b>	<b>\$ 417</b>	<b>\$ 242</b>	<b>\$ (175)</b>
<b>SELECT CURRENT LIABILITIES</b>			
General Funds Accounts Payable (12/30)	\$ 1,720	\$ 1,793	\$ 73
Short-Term Borrowing Payable (12/30)	-	-	-
Income Tax Refunds Payable (12/30):			
Corporate	-	-	-
<b>Total Select Current Liabilities</b>	<b>\$ 1,720</b>	<b>\$ 1,793</b>	<b>\$ 73</b>
<b>NET WORKING CAPITAL</b>	<b>\$ (1,303)</b>	<b>\$ (1,551)</b>	<b>\$ (248)</b>

## EMPLOYMENT HIGHLIGHTS

As noted in Table V, Illinois is consistent with national trends in experiencing increasing unemployment rates and downward employment shifts. According to the Illinois Department of Employment Security, the unemployment rate has increased for all 12 major Illinois metropolitan areas over December 2007.

**Table V**  
**EMPLOYMENT HIGHLIGHTS**  
**Second Quarter**  
**FY2008 vs. FY2009**  
(in millions)

STATEWIDE EMPLOYMENT STATISTICS	<u>Six Months Ending</u>		
	<u>12/31/07</u>	<u>12/31/08</u>	<u>Change</u>
Labor Force	6,742,500	6,640,400	(102,100)
Employed	6,382,400	6,135,100	(247,300)
Unemployed	360,100	505,300	145,200
Illinois Unemployed Rate	5.3%	7.6%	2.3%
US Unemployed Rate	4.9%	7.2%	2.3%