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GOVERNOR

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2009 THIRD QUARTER FINANCIAL REVIEW

GENERAL FUNDS HIGHLIGHTS

Fiscal year 2009 third quarter general funds show a **net operating loss of \$2.9 billion** driven by declining revenues and increased expenditures as compared to fiscal year 2008 third quarter.

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

	YTD			
	<u>Mar-08</u>	<u>Mar-09</u>	<u>\$ Change</u>	<u>% Change</u>
General Funds Revenues	\$ 19,455	\$ 18,403	\$ (1,052)	-5%
Transfers In	1,303	1,083	(220)	-17%
Total Receipts	20,758	19,486	(1,272)	-6%
General Funds Expenditures	19,762	21,139	1,377	7%
Transfers Out	2,354	2,664	310	13%
Total Expenditures	22,116	23,803	1,687	8%
Net Operating Income/(Loss)	\$ (1,358)	\$ (4,317)	\$ (2,959)	218%

General revenues total \$18,403 million, a decline of \$1,052 billion (5%) below the fiscal year 2008 third quarter level. The State's economically driven revenues continue to decline as the recession expands. Fiscal year 2009 third quarter Revenues and Operating Transfers In total \$1,083 billion, a \$220 million (17%) decrease compared to the prior year.

Fiscal year 2009 third quarter general fund expenditures totaled \$21,139, \$1,377 billion above third quarter fiscal year 2008. The 7% growth in spending over third 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 third quarter of fiscal year 2009 decreased by \$1,272 billion.

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

Source	Year to Date Actual			
	3rd Qtr FY08 YTD	3rd Qtr FY09 YTD	YTD Difference Amount %	
Gross Individual Income Tax	7,472	7,320	(152)	-2.0%
Less: Deposits to ITRF	(579)	(713)	(134)	23.1%
Net Individual Income Tax	6,893	6,607	(286)	-4.1%
Gross Corporate Income	1,325	1,191	(134)	-10.1%
Less: Deposits to ITRF	(205)	(208)	(3)	1.5%
Net Corporate Income Tax	1,120	983	(137)	-12.2%
Sales	5,411	5,170	(241)	-4.5%
Public Utility	853	877	24	2.8%
Cigarette	263	263	0	0.0%
Inheritance	291	219	(72)	-24.7%
Liquor	120	119	(1)	-0.8%
Insurance	198	216	18	9.1%
Corporate Franchise	166	150	(16)	-9.6%
Investment Income	154	57	(97)	-63.0%
Cook County IGT	193	159	(34)	-17.6%
Other (excluding Gaming Taxes)	331	312	(19)	-5.7%
TOTAL, STATE REVENUES	15,992	15,132	(861)	-5.4%
Federal Revenues	3,463	3,270	(193)	-5.6%
Transfers In:	1,303	1,083	(219)	-16.8%
Lottery	477	440	(37)	-7.8%
Gaming/Gaming Taxes	454	345	(109)	-24.0%
Other (including Chargebacks)	371	298	(73)	-19.7%
TOTAL, REVENUES AND TRANSFERS IN	20,758	19,486	(1,272)	-6.1%
TOTAL, RECEIPTS	20,758	19,486	(1,272)	-6.1%

- **Income Taxes (\$423 million decrease):** For the nine months ending March 31, 2009, combined individual and corporate income taxes have decreased \$423 million compared to fiscal year 2008. Individual income taxes (net of deposits to the refund fund) are down \$286 million (4.1%). Withholding taxes, which account for 75% of total individual income tax receipts are down due to declines in Illinois' workforce and increased unemployment. Corporate income taxes, driven by corporate profits are down \$137 million (12.2%) compared to fiscal year 2008.
- **Sales Taxes (\$241 million decrease):** Consumer spending has declined impacting sales tax receipts. Sales tax receipts have decreased \$241 million or 4.5% compared to fiscal year 2008.
- **Public Utility Taxes (\$24 million increase):** The 2.8% increase is primarily due to timing and an increase in gas receipts due to weather conditions this winter.
- **Investment Income (\$97 million decrease):** The 63.0% decline in investment income is attributed to declining cash balances and lower short-term interest rates.
- **Gaming and Lottery (\$146 million decrease):** Gaming revenues decreased by \$109 million, or 24.0%. Riverboat gaming revenues may have been impacted adversely by the Smoke Free Illinois Act and the slowing economy. Lottery transfers also decreased by \$37 million or 7.8%.
- **All Other Sources (\$124 million decrease):** Cigarette Taxes and Liquor Gallonage Taxes remain flat compared to third quarter of fiscal year 2008. Inheritance Tax receipts significantly decreased by \$72

million (24.7%), Corporate Franchise Taxes and Fees decreased by \$16 million (9.6%), Cook County IGT funds were down \$34 million or 17.6%, and Other Sources decreased by \$19 million or 5.7%.

- **Federal Revenues (\$193 million decrease):** The 5.6% decrease in federal revenue is due to a decline in Medicaid reimbursements. The Comptroller is holding over \$600 million in Medicaid payables at this time. Enhanced reimbursements through the American Recovery & Reinvestment Act will help pay down the backlog in the fourth quarter.
- **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. \$81 million from the Hospital Assessment Program is anticipated to be transferred in by the end of fiscal year 2009.

GENERAL FUNDS EXPENDITURES SUMMARY

Table III details general fund expenditures for the third quarter of fiscal year 2009. General Fund expenditures for the third quarter of fiscal year 2009 totaled \$21,139 billion, an increase of \$1,376 billion (7.0%) from the previous year.

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

	<u>FY2008</u>	<u>FY2009</u>	<u>Change</u>
Enacted Appropriation	\$27,538.0	\$28,311.0	\$ 773.0
Expend YTD	\$19,762.0	\$21,139.0	\$ 1,377.0
Percent Spent	72%	75%	3%

Overall growth in operating expenditures across all agencies is due to costs associated with collective bargaining 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 75%, however, specific isolated pressures within the state budget contribute to expenditures that exceed this limitation. Higher Education expenditures exceed the point in time spending limit due to timing of certain university expenditures and in the release of community college grants. Moreover, the Teacher's Retirement System has exceeded the appropriation due to a \$400 million increase in the state's certified contribution rate. The General Assembly did not appropriate these additional costs, but instead are relying on statutory continuing appropriation authority for pensions to meet the funding obligation. 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 March 31, 2009, 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 \$191 million, a \$19 million (9.0%) decrease from the March 31, 2008 level of \$211 million.

Year-to-date revenue shortfalls have resulted in a \$1,924 million (136%) increase in accounts payable as of March 31, 2009.

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

	<u>FY 08</u>	<u>FY 09</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (12/31)	\$ 589	\$ 215	\$ (374)
Change in Operating Cash for 3rd Qtr	(655)	(300)	355
Short-term Borrowing Proceeds	-	-	-
Transfer In from Budget Stabilization Fund	276	276	-
General Funds Cash Balance (3/31)	210	191	(19)
Budget Stabilization Fund Cash Balance (3/31)	-	-	-
Total Cash Balance (3/30)	\$ 210	\$ 191	\$ (19)
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (3/31)	\$ 1,416	\$ 3,340	\$ 1,924
Short-Term Borrowing Payable (3/31)	-	-	-
Total Select Current Liabilities	\$ 1,416	\$ 3,340	\$ 1,924
NET WORKING CAPITAL	\$ (1,206)	\$ (3,149)	\$ (1,943)

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 March 2008.

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

STATEWIDE EMPLOYMENT STATISTICS	Nine Months Ending		
	<u>3/30/08</u>	<u>3/30/09</u>	<u>Change</u>
Labor Force	6,726,300	6,579,100	(147,200)
Employed	6,325,800	5,983,100	(342,700)
Unemployed	400,500	596,000	195,500
Illinois Unemployed Rate	6.0%	9.1%	3.1%
US Unemployed Rate	5.1%	8.5%	3.4%

Source: IL Dept. of Employment Security