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GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2009 YEAR-END FINANCIAL REVIEW

GENERAL FUNDS HIGHLIGHTS

The fiscal year 2009 general funds net operating loss totals \$3.8 billion, driven by declining revenues and growth in expenditures, as compared to fiscal year 2008.

Table I
GENERAL FUNDS HIGHLIGHTS
Year-End Review
FY2008 vs. FY2009
(in millions)

	YTD			
	Jun-08	Jun-09	\$ Change	% Change
General Funds Revenues	\$ 27,759	\$ 27,551	\$ (208)	-1%
Transfers In	1,900	1,593	(307)	-16%
Total Receipts	29,659	29,144	(515)	-2%
General Funds Expenditures	27,153	29,961	2,808	10%
Transfers Out	3,202	2,999	(203)	-6%
Total Expenditures	30,355	32,960	2,605	9%
Net Operating Income/(Loss)	\$ (696)	\$ (3,816)	\$ (3,120)	448%

Fiscal year 2009 general fund revenues total \$27,551 million, a decline of \$208 million (1%) below the fiscal year 2008 level. The State's economically driven revenues (individual income taxes, corporate income taxes and sales taxes) declined as the recession began to impact employment, corporate profits and consumer spending. Fiscal year 2009 Revenues and Operating Transfers In total \$1,593 million, a \$307 million (16%) decrease compared to the prior year.

Fiscal year 2009 general fund expenditures total \$29,961 million, \$2,808 million above fiscal year 2008. Despite efforts to control spending, the 10% growth in spending over the prior year is the result of the pressures of retirement rate and collective bargaining increases, as well as 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 fiscal year 2009 decreased by \$515 million.

Table II
GENERAL FUNDS REVENUES
Year -End Review
FY2008 vs. FY2009
(in millions)

Source	Year to Date Actual			
	FY08 YTD	FY09 YTD	YTD Difference Amount	%
Gross Individual Income Tax	11,187	10,219	(968)	-8.7%
Less: Deposits to ITRF	(867)	(996)	(129)	14.9%
Net Individual Income Tax	10,320	9,223	(1,097)	-10.6%
Gross Corporate Income	2,201	2,072	(129)	-5.9%
Less: Deposits to ITRF	(341)	(362)	(21)	6.2%
Net Corporate Income Tax	1,860	1,710	(150)	-8.1%
Sales	7,215	6,773	(442)	-6.1%
Public Utility	1,157	1,168	11	1.0%
Cigarette	350	350	0	0.0%
Inheritance	373	288	(85)	-22.8%
Liquor	158	158	0	0.0%
Insurance	298	334	36	12.1%
Corporate Franchise	225	201	(24)	-10.7%
Investment Income	212	81	(131)	-61.8%
Cook County IGT	302	253	(49)	-16.2%
Other (excluding Gaming Taxes)	475	445	(30)	-6.3%
TOTAL, STATE REVENUES	22,944	20,984	(1,961)	-8.5%
Federal Revenues	4,815	6,567	1,752	36.4%
Transfers In:	1,900	1,593	(307)	-16.2%
Lottery	657	625	(32)	-4.9%
Gaming/Gaming Taxes	564	430	(134)	-23.8%
Other (including Chargebacks)	679	538	(141)	-20.8%
TOTAL, REVENUES AND TRANSFERS IN	29,659	29,144	(1,272)	-4.3%
TOTAL, RECEIPTS	29,659	29,144	(515)	-1.7%

- **Income Taxes (\$1,247 million decrease):** Individual and corporate income taxes decreased \$1,247 million compared to fiscal year 2008. Individual income taxes declined 10.6 % due to accelerating unemployment within the State which impacts individual income tax withholdings. (See “Employment Highlights” section for details on labor statistics.) Corporate income taxes, driven by corporate profits, declined \$150 million (8.1%) compared to the prior fiscal year. These factors, coupled with a \$150 million increase in deposits to the income tax refund fund above fiscal year 2008 are directly attributable to the economic recession.
- **Sales Taxes (\$442 million decrease):** Sales tax revenues decreased \$442 million (6.1%) below fiscal year 2008 due to declines in consumer spending. Motor vehicle sales tax and fuel sales tax revenues declined by 19.4% and 22.4%, respectively, from the prior fiscal year. All other sales taxes decreased by 1.4%.
- **Investment Income (\$131 million decrease):** The 62% decline in investment income is attributed to lower cash balances throughout the fiscal year and lower short-term interest rates.
- **Gaming and Lottery (\$166 million decrease):** The slowing economy has also adversely impacted the State’s gaming revenues. Gaming revenues decreased by \$134 million, or 24.0%. Riverboat admissions decreased by 2.2% from the prior fiscal year. Lottery transfers decreased by \$32 million or 4.9%.
- **All Other Sources (\$141 million decrease):** Public Utility Tax receipts increased by \$11 million or 1% due to telecommunications and natural gas revenues. Inheritance Tax receipts significantly decreased by \$85 million (22.8%), Corporate Franchise Taxes and Fees decreased by \$24 million (10.7%), Cook County IGT funds were down \$49 million or 16.2%, and Other Sources decreased by \$30 million or 6.3%.

- **Federal Revenues (\$1,752 million increase):** Passage of the American Recovery and Reinvestment Act generated an additional \$1,566 million in federal receipts for fiscal year 2009. These additional revenues were used primarily for education and Medicaid expenditures.
- **Other Transfers In (\$141 million decrease):** Statutory transfers in fiscal year 2009 decreased \$307 million (16.1%) from fiscal year 2008 primarily reflecting year-to-year timing differences in cash transfers and the lack of special fund transfers to the General Revenue Fund.

GENERAL FUNDS EXPENDITURES SUMMARY

Table III highlights general fund expenditures for fiscal year 2009. General Fund expenditures for the fiscal year totaled \$29,961 million, an increase of \$2,808 million (10%) from the previous year.

Table III
GENERAL FUND EXPENDITURES
Year-End Review
FY2008 vs FY2009
(in millions)

	<u>FY2008</u>	<u>FY2009</u>	<u>Change</u>
Enacted Appropriation	\$27,538.0	\$30,283.0	\$ 2,745.0
Expend YTD**	\$27,153.0	\$29,961.0	\$ 2,808.0
Percent Spent	99%	99%	0%

*FY2009 enacted appropriation increased from 3rd quarter level due to passage of supplemental appropriation in HB 210.

**Includes lapse expenditures

Fiscal year 2009 General Fund appropriations increased by \$2,745 million over fiscal year 2008 which included \$426 million of pension contributions that were not appropriated in the adopted fiscal year 2009 budget, a \$340 million increase in appropriations for elementary and secondary education grants over fiscal year 2008 levels and supplemental appropriations of \$1.5 billion to comply with the American Recovery and Reinvestment Act thirty day Medicaid payment cycle requirements for nursing homes, hospitals and physician payments .

Overall, growth in operating expenditures across all agencies is due in part to increased costs associated with collective bargaining and retirement rate increases. The retirement rate increased 22% from fiscal year 2008; from 17.196% to 21.049%. Elementary and secondary education expenditures included a \$32.4 million or 9.3% increase for early childhood and family education programs and a \$94.4 million or 5.6% increase for mandated categorical (MCAT) costs in Special Education and transportation. In addition, Higher Education grant expenses increased by \$59 million, which included funding for the Illinois Student Assistance Commission (ISAC) monetary award program (MAP). Healthcare and Family Services spending for Medicaid increased by \$957 million or 13.8%. Similarly, other agencies within the human services area increased spending over the prior fiscal year for services for children, seniors, and healthcare.

FINANCIAL POSITION

The General Funds cash balance at June 30, 2009, which includes the annual cash flow borrowing of \$276 million from the Budget Stabilization Fund and \$1,400 million in proceeds from Short-Term borrowing, was \$280 million, a \$139 million increase from the June 30, 2008, level of \$141 million.

Year-to-date revenue shortfalls have resulted in a \$2,978 million increase in accounts payable as of June 30, 2009.

Table IV
FINANCIAL POSITION
Year-End Review
FY2008 vs. FY2009
(in millions)

	<u>FY 08</u>	<u>FY 09</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (3/31)	\$ 210	\$ 191	\$ (19)
Change in Operating Cash for 4th Qtr	(345)	(187)	158
Transfer In from Budget Stabilization Fund	276	276	-
Total Cash Balance (6/30)	<u>141</u>	<u>280</u>	<u>139</u>
Budget Stabilization Fund Cash Balance (6/30)	276	276	-
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (6/30)	\$ 975	\$ 3,953	\$ 2,978
Short-Term Borrowing Payable (6/30)	-	-	-
Total Select Current Liabilities	<u>\$ 975</u>	<u>\$ 3,953</u>	<u>\$ 2,978</u>
NET WORKING CAPITAL	<u>\$ (834)</u>	<u>\$ (3,673)</u>	<u>\$ (2,839)</u>

EMPLOYMENT HIGHLIGHTS

Illinois' unemployment rate was 10.3% as of June 30, 2009, up 2.5 points from the start of the fiscal year due to continuing job losses. This is the highest level of unemployment within the past decade. The total nonfarm labor force declined 4.6% compared to the end of fiscal year 2008. The construction and manufacturing sectors were hit particularly hard, with 12-month declines of over 10%. As noted in Table V, Illinois' increasing unemployment rates and downward employment shifts are consistent with national trends.

Table V
EMPLOYMENT HIGHLIGHTS
Year-End Review
FY2008 vs. FY2009
(in millions)

STATEWIDE EMPLOYMENT STATISTICS	Twelve Months Ending		
	<u>6/30/08</u>	<u>6/30/09</u>	<u>Change</u>
Labor Force	6,700,700	6,654,100	(46,600)
Employed	6,259,900	5,970,800	(289,100)
Unemployed	440,800	683,300	242,500
Illinois Unemployed Rate	6.6%	10.3%	3.7%
US Unemployed Rate	5.6%	9.5%	3.9%

Source: IL Dept. of Employment Security