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GOVERNOR'S OFFICE OF  
MANAGEMENT AND BUDGET

**FISCAL YEAR 2010 SECOND QUARTER FINANCIAL REVIEW**

**GENERAL FUNDS HIGHLIGHTS**

Fiscal year 2010 second quarter General Funds highlights show a net operating YTD deficit of \$2,675 million; a continuous downward trend driven primarily by declining revenues as a result of the economic recession.

**Table I**  
**GENERAL FUNDS HIGHLIGHTS**  
**Second Quarter**  
**FY2009 vs. FY2010**  
(in millions)

	YTD			
	<u>Dec-09</u>	<u>Dec-10</u>	<u>\$ Change</u>	<u>% Change</u>
General Funds Revenues	\$ 12,222	\$ 11,779	\$ (443)	-4%
Transfers In <sup>1</sup>	721	932	212	29%
Total Receipts	12,942	12,711	(231)	-2%
General Funds Expenditures	13,834	13,761	(73)	-1%
Transfers Out <sup>1</sup>	1,587	1,626	39	2%
Total Spending	15,421	15,387	(34)	0%
Net Operating Surplus/(Deficit)	<u>\$ (2,479)</u>	<u>\$ (2,675)</u>	<u>\$ (197)</u>	<u>8%</u>

<sup>1</sup>Excludes short-term borrowing and repayments.

General revenues total \$11,779 million; a \$443 million (4%) decline compared to the fiscal year 2009 second quarter level. The State's declining economic condition is evidenced by declining growth rates in several revenue sources, as detailed in Table II.

Fiscal year 2010 second quarter General Fund YTD expenditures totaled \$13,761; \$73 million below second quarter fiscal year 2009. The 1% reduction in spending compared to fiscal year 2009 is the result of concerted efforts to control spending by implementing agency specific cutbacks to non-core services. In spite of these reductions, however, the State continues to face revenue pressures for expenditures central to government operations such as personal services costs and services for children, seniors, and students.

**GENERAL FUNDS REVENUE SUMMARY**

General Funds Revenues, including Transfers In and Federal Revenues, excluding short-term borrowing proceeds, for the second quarter of fiscal year 2010 decreased by \$231 million. As detailed below, the major revenue sources for the State have been negatively impacted by the economy.

**Table II**  
**GENERAL FUNDS REVENUES**  
**Second Quarter**  
**FY2009 vs. FY2010**  
(in millions)

Source	Year to Date Actual				Year to Date Budget			
	2nd Qtr FY09	2nd Qtr FY10	YTD Difference		FY10	FY10 YTD	Variance	
	YTD	YTD	Amount	%	YTD Budget	Actual	Amount	%
<b>General Revenue Funds:</b>								
Gross Individual Income Tax	4,564	4,214	(350)	-7.7%	3,875	4,214	(795)	-15.9%
Less: Deposits to Income Tax Refund Fund	(445)	(410)	35	-7.9%	(378)	(410)	79	-16.1%
Net Individual Income Tax	<b>4,119</b>	<b>3,804</b>	<b>(315)</b>	<b>-7.6%</b>	<b>3,497</b>	<b>3,804</b>	<b>(716)</b>	<b>-15.8%</b>
Gross Corporate Income	743	622	(121)	-16.4%	503	622	72	13.0%
Less: Deposits to Income Tax Refund Fund	(130)	(109)	21	-16.2%	(88)	(109)	(13)	13.3%
Net Corporate Income Tax	<b>613</b>	<b>513</b>	<b>(100)</b>	<b>-16.3%</b>	<b>415</b>	<b>513</b>	<b>59</b>	<b>13.0%</b>
Sales	<b>3,645</b>	<b>3,185</b>	<b>(460)</b>	<b>-12.6%</b>	<b>3,296</b>	<b>3,185</b>	<b>(672)</b>	<b>-17.4%</b>
Public Utility	559	517	(42)	-7.5%	547	517	(131)	-20.2%
Cigarette	175	175	0	0.0%	180	175	(33)	-15.8%
Inheritance	144	116	(28)	-19.7%	139	116	(44)	-27.5%
Liquor	82	76	(6)	-7.6%	83	76	(22)	-22.3%
Insurance	139	157	18	12.6%	145	157	0	0.0%
Corporate Franchise	106	107	0	0.5%	104	107	(14)	-11.8%
Investment Income	33	15	(18)	-54.3%	38	15	(29)	-65.6%
Cook County IGT	65	56	(9)	-13.9%	72	56	(26)	-31.7%
Other	197	198	1	0.4%	147	198	16	8.8%
<b>TOTAL, STATE REVENUES</b>	<b>9,878</b>	<b>8,919</b>	<b>(959)</b>	<b>-9.7%</b>	<b>8,663</b>	<b>8,919</b>	<b>(1,612)</b>	<b>-15.3%</b>
Federal Revenues	<b>2,343</b>	<b>2,860</b>	<b>516</b>	<b>22.0%</b>	<b>3,360</b>	<b>2,860</b>	<b>(1,104)</b>	<b>-27.9%</b>
Transfers In:	<b>721</b>	<b>932</b>	<b>212</b>	<b>29.4%</b>	<b>988</b>	<b>932</b>	<b>(169)</b>	<b>-17.1%</b>
Lottery	294	294	0	0.0%	300	294	(58)	-16.5%
Gaming/Gaming Taxes	250	242	(8)	-3.2%	264	242	(58)	-19.4%
Other (including Chargebacks)	177	397	220	124.2%	424	397	(53)	-11.7%
<b>TOTAL, REVENUES AND TRANSFERS IN</b>	<b>12,942</b>	<b>12,711</b>	<b>(231)</b>	<b>-1.8%</b>	<b>13,011</b>	<b>12,711</b>	<b>(2,885)</b>	<b>-18.5%</b>
<b>TOTAL, RECEIPTS</b>	<b>12,942</b>	<b>12,711</b>	<b>(231)</b>	<b>-1.8%</b>	<b>13,011</b>	<b>12,711</b>	<b>(300)</b>	<b>-2.3%</b>

- Income Taxes (\$415 million decrease):** As unemployment rates increase, Individual Income Tax receipts continue to decline. Individual Income tax revenues are down \$315 million, or 8% from prior year revenues. Similarly, Corporate Income net receipts have declined by \$100 million, or 16% from the prior fiscal year. Net income tax receipts reflect transfers to the Income Tax Refund Fund. The declines in Illinois net withholdings and non-withholdings are similar to what the federal government has experienced. Furthermore, the Illinois Department of Employment Security projects additional job losses over the last two quarters of this fiscal year.
- Sales Taxes (\$460 million decrease):** The 12.6% decrease was largely attributable to weakness in the labor market which has led to unemployment and increased consumer caution. Other general economic factors continue to play a role in the declining sales tax receipts such as losses in household net worth, limited credit availability and an increased personal savings rate.
- Public Utility Taxes (\$42 million decrease):** The 7.5% decrease is attributed to lower than anticipated electricity and natural gas usage associated with milder weather than the prior fiscal year.
- All Other Sources (\$42 million decrease):** Liquor Gallonage decreased by \$6 million or 7.6%, Insurance Tax and Fees were up \$18 million or 12.6%. Inheritance Tax decreased by \$28 million (19.7%), Cigarette Taxes and Corporate Franchise Taxes and Fees remain flat to fiscal year 2009, Cook County IGT funds were down \$9 million or 13.9%, Investment Income decreased by \$18 million or 54.3%, and Other Sources increased by \$1 million (0.4%) due to timing differences.

- **Federal Revenues (\$516 million increase):** Federal sources of revenue increased \$516 million or 22.0%, due to the federal stimulus plan which generated \$551 million through the second quarter of fiscal year 2010.
- **Transfers In (\$212 million increase):** All other transfers in increased \$220 million primarily from fund sweeps totaling \$161 million as of December 31, 2009.

## GENERAL FUNDS EXPENDITURES SUMMARY

Table III details general fund expenditures for the second quarter of fiscal year 2010. General Funds expenditures for the second quarter of fiscal year 2010 totaled \$13,761 million, a decrease of \$73 million (0.5%) from the previous year.

**Table III**  
**GENERAL FUNDS EXPENDITURES**  
**Second Quarter**  
**FY2009 vs FY2010**  
(in millions)

	<u>FY2009</u>	<u>FY2010</u>	<u>Change</u>
Enacted Appropriation	\$ 30,283	\$ 26,310	\$ (3,973)
Expend YTD	\$ 13,834	\$ 13,761	\$ (73)
Percent Spent	46%	52%	6%

Most agencies are aligned with the point in time spending assumption of 50%, which is reflective of the percentage of the fiscal year that has passed. However, specific isolated pressures within the state budget contribute to expenditures that exceed this spending level. Although implementing agency specific cutbacks to non-core services is the primary goal for fiscal year 2010 agency operations, certain expenditures continue to surpass targets as the logistics of particular cutbacks are developed. Agency specific pressures are partially due to timing differences and growth in mandated costs. This trend will likely continue for the remainder of the fiscal year.

## FINANCIAL POSITION

The General Funds cash balance at December 31, 2009, which includes the cash flow borrowing of \$276 million from the Budget Stabilization Fund, was \$150 million, a \$65 million decrease (30.2%) from the December 31, 2008 level of \$215 million.

Year-to-date revenue declines have resulted in a \$3,244 million (181%) increase in accounts payable as of December 31, 2009.

**Table IV**  
**FINANCIAL POSITION**  
**Second Quarter**  
**FY2009 vs. FY2010**  
(in millions)

	<u>FY 09</u>	<u>FY 10</u>	<u>Change</u>
<b>CASH BALANCE</b>			
General Funds Cash Balance (9/30)	\$ 188	\$ 207	\$ 19
Change in Operating Cash for 2nd Qtr	(1,649)	(1,583)	66
Short-term Borrowing Proceeds	1,400	1,250	(150)
Transfer In from Budget Stabilization Fund	276	276	-
<b>General Funds Cash Balance (12/31)</b>	<b>\$ 215</b>	<b>\$ 150</b>	<b>\$ (65)</b>
<b>SELECT CURRENT LIABILITIES</b>			
General Funds Accounts Payable (12/31)	\$ 1,793	\$ 5,037	\$ 3,244
<b>Total Select Current Liabilities</b>	<b>\$ 1,793</b>	<b>\$ 5,037</b>	<b>\$ 3,244</b>
<b>NET WORKING CAPITAL (GF cash less GF A/P)</b>	<b>\$ (1,578)</b>	<b>\$ (4,887)</b>	<b>\$ (3,309)</b>

## EMPLOYMENT HIGHLIGHTS

As noted in Table V, Illinois unemployment rate was 11.1% as of December 31, 2009, up 0.6 points from last quarter. Nationally, the December unemployment rate remained unchanged at 10%. According to the Illinois Department of Employment Security, slight increases and decreases in the unemployment rate are to be expected in a national recession.

**Table V**  
**EMPLOYMENT HIGHLIGHTS**  
**Second Quarter**  
**FY2009 vs. FY2010**  
(in millions)

<b>STATEWIDE EMPLOYMENT STATISTICS</b>	<b>Six Months Ending</b>		
	<u>12/31/08</u>	<u>12/31/09</u>	<u>Change</u>
Labor Force	6,658,300	6,623,900	(34,400)
Employed	6,177,800	5,890,700	(287,100)
Unemployed	480,500	733,300	252,800
Illinois Unemployed Rate	7.2%	11.1%	3.9%
US Unemployed Rate	7.4%	10.0%	2.6%

Source: Illinois Dept. of Employment Security