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FISCAL YEAR 2007 SECOND QUARTER FINANCIAL REVIEW

Table I
OPERATING HIGHLIGHTS*
Second Quarter
FY2006 vs. FY2007
(in millions)

	Second Quarter				Year to Date			
	FY 06	FY 07	Change	% Change	FY 06	FY 07	Change	% Change
OPERATIONS								
General Funds Revenues	\$ 6,092	\$ 5,744	\$ (348)	-5.7%	\$ 12,053	\$ 11,861	\$ (192)	-1.6%
Operating Transfers In	434	437	3	0.7%	866	984	118	13.6%
Total Operating Receipts	\$ 6,526	\$ 6,181	\$ (345)	-5.3%	\$ 12,919	\$ 12,845	\$ (74)	-0.6%
General Funds Expenditures	\$ 7,028	\$ 5,782	\$ (1,246)	-17.7%	\$ 12,921	\$ 11,893	\$ (1,028)	-8.0%
Operating Transfers Out	612	567	(45)	-7.4%	1,285	1,389	104	8.1%
Total Operating Disbursements	\$ 7,640	\$ 6,349	\$ (1,291)	-16.9%	\$ 14,206	\$ 13,282	\$ (924)	-6.5%
Change in Operating Cash-Increase (Decrease)	\$ (1,114)	\$ (168)	\$ 946	-84.9%	\$ (1,287)	\$ (437)	\$ 850	-66.0%
Short-Term Borrowing	\$ 1,000	\$ -	\$ (1,000)	-100.0%	\$ 1,000	\$ -	\$ (1,000)	-100.0%
Change in Cash-Increase(Decrease)	\$ (114)	\$ (168)	\$ (54)		\$ (287)	\$ (437)	\$ (150)	

*Refer to Appendix I for details.

OPERATING HIGHLIGHTS

As illustrated in Table I and detailed in Appendix I, total second quarter state and federal revenues for fiscal year 2007 totaled \$5,744 million or \$348 million (5.7%) below the fiscal year 2006 level. Total Revenues and Operating Transfers In for the first quarter of fiscal year 2007 was \$6,181 million, a \$345 million (5.3%) decrease from comparable period of fiscal year 2006. The change was attributable to a \$590 million (37.8%) decrease in federal revenues while state revenues increased by \$242 million or 5.3%.

As shown in Appendix II, total disbursements decreased by \$1,291 million (16.9%) in the second quarter of fiscal year 2007 compared to 2006. Spending decreased due to the short-term borrowing which occurred during November 2005 (fiscal year 2006) which was used to reduce the Medicaid payment cycle. 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 results are generally offset by corresponding timing issues in subsequent periods.

REVENUES AND OPERATING TRANSFERS IN

As detailed in Appendix I, State Revenues for the second quarter of fiscal year 2007 increased by \$242 million, or 5.3 %, from fiscal year 2006.

- **Income Taxes (\$132 million increase):** Net of transfers to the Income Tax Refund Fund, income tax revenues deposited into the General Funds were up 6.5% from the second quarter of fiscal year 2006. Gross Individual Income Tax collections were up by 5.0% or \$96 million from the second quarter of fiscal year 2006. Gross Corporate Income Tax collections were up by 16.1% or \$61 million, compared to the same period a year ago. These increases were primarily associated with continued economic expansion and increased corporate profits. Transfers to the Income Tax Refund Fund increased by \$24 million or 8.5%, when compared to fiscal year 2006, continuing to ensure sufficient cash availability for prompt payment of all refunds.
- **Sales Taxes (\$106 million increase):** The growth of 6.1% was largely attributable to a continued strong Illinois economy.
- **Public Utility Taxes (\$3 million decrease):** The 1.1% decrease can be largely attributed to a decline in telecommunication tax receipts due to the November 2005 cessation of tax collections associated with the Digital Subscriber Line (DSL).
- **Investment Income (\$18 million increase):** The 52.9% growth is attributable to increased cash balances and higher short-term interest rates.
- **Cook County Intergovernmental Transfer (IGT) (\$7 million increase):** The 14.3% increase is primarily due to timing differences. Despite the increase during this second quarter, the IGT transfer is being reduced by the Federal government and still expected to generate \$41 million less in 2007 than last year.
- **Gaming and Lottery (\$9 million decrease):** Lottery transfers declined by \$19 million (11.8%) largely attributable to smaller jackpots for the Mega Millions game which resulted in reduced sales. However, gaming revenues increased by \$10 million. Gaming corporations will reconcile their tax payment to the State by June, 2007 based on a "hold harmless" provision in statute. The provision is such that Gaming transfers and Riverboat Gambling Taxes in fiscal year 2005 establish the minimum amount. A reconciliation to determine the amount of additional monies that are due to the State will be conducted in the fourth quarter of fiscal year 2007.
- **All Other Sources (\$8 million decrease):** Cigarette Taxes decreased \$12 million, or (12.0%) due to a reduction in the statutory allocation of cigarette tax receipts deposited into the General Funds. Insurance Tax and Fees increased \$1 million in the second quarter of fiscal year 2007. Inheritance Tax and Liquor Gallonage Taxes maintained steady receipts. Corporate Franchise Tax and Fees decreased \$4 million (8.2%) and Other Sources decreased by \$3 million (3.0%), due to timing differences.
- **Other Transfers In (\$12 million increase):** The 12.9% increase is primarily due to intra-year timing differences stemming from transfers from other funds and administrative chargeback activity this quarter versus last year.
- **Federal Sources (\$590 million decrease):** The 37.8% decrease is attributable to a decline in Medicaid expenditures which result in reduced Federal reimbursements. These decreases were a result of a high

level of spending in 2006, facilitated by a short-term borrowing used to reduce the Medicaid payment cycle last year.

EXPENDITURES AND TRANSFERS OUT

As further detailed in Appendix II and discussed below, total cash disbursements (Expenditures plus Transfers Out) during the second quarter of fiscal year 2007 were \$6,349 million, a decrease of \$1,291 million or 16.9% from the previous year. That decrease is primarily associated with the short-term borrowing that occurred in November of fiscal year 2006, that funded additional Medicaid payments of outstanding vouchers payable, as previously described.

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 (\$236 million decrease):** Spending was down 4.7% from last year. That reduction was attributable primarily to a decrease in Healthcare and Family Services spending of \$348 million or 17.3% as compared to second quarter fiscal year 2006. Teachers' retirement grants were up \$52 million, or 34.2% and K-12 education spending increased by \$81 million or 5.3% from first quarter fiscal 2006.
- **Operations (\$49 million decrease):** Fiscal year 2007 second quarter operating expenditures decreased by 2.8%. Higher Education decreased by \$88 million, or 16.7% while other agencies operations spending increased \$39 million, or 3.2%, primarily due to timing differences.

FINANCIAL POSITION

In the second quarter of fiscal year 2007, total disbursements exceeded total receipts by \$168 million. The General Funds cash balance at December 31, 2007 was \$429 million, \$57 million less than the December 31, 2006 level of \$486 million.

General Funds accounts payable increased from \$508 million as of September 30, 2006 to \$1,337 million on December 31, 2006 and was \$431 million greater than the December 31, 2005 balance. The net December 31st working capital position (cash less accounts payable) improved by \$491 million from fiscal 2006, primarily due to revenue growth, timing of some transfers and a decline in Medicaid spending, as previously discussed.

Table II
SELECTED FINANCIAL HIGHLIGHTS
Second Quarter
FY2006 vs. FY2007
(in millions)

	<u>FY 06</u>	<u>FY 07</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (9/30)	\$ 600	\$ 597	\$ (3)
Change in Operating Cash Increase(Decrease) for Second Quarter*	(1,114)	(168)	946
Short-term Borrowing Proceeds	1,000	-	(1,000)
Transfer In from Budget Stabilization Fund	-	-	-
General Funds Cash Balance (12/31)**	<u>486</u>	<u>429</u>	<u>(57)</u>
Budget Stabilization Fund Cash Balance (12/31)	-	-	-
Total Cash Balance (12/31)	<u>\$ 486</u>	<u>\$ 429</u>	<u>\$ (57)</u>
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (12/31)***	\$ 906	\$ 1,337	\$ 431
Short-Term Borrowing Payable (12/31)	1,000	-	(1,000)
Income Tax Refunds Payable (12/31):			
Individual	7	29	22
Total Select Current Liabilities	<u>\$ 1,913</u>	<u>\$ 1,366</u>	<u>\$ (547)</u>
Income Tax Refund Fund Cash Balance	<u>\$ 359</u>	<u>\$ 404</u>	<u>\$ 5</u>

* See Table I

** See Appendix II

*** Source: Office of the Comptroller

**APPENDIX I
GENERAL FUNDS
CASH RECEIPTS**

Second Quarter FY06 vs. FY07
(in millions)

	FY 2006	FY2007	Change	
			Amount	Percent
Cash Basis Receipts:				
State Revenues:				
Gross Individual Income Tax	\$ 1,928	\$ 2,023	\$ 96	5.0%
Gross Corporate Income Tax	\$ 376	\$ 437	\$ 61	16.1%
Deposits to Income Tax Refund Fund	\$ (283)	\$ (307)	\$ (24)	8.5%
Total, Net Income Taxes	\$ 2,021	\$ 2,153	\$ 132	6.5%
Sales Taxes	\$ 1,730	\$ 1,836	\$ 106	6.1%
Other State Revenues:				
Public Utility Taxes	\$ 272	\$ 269	\$ (3)	-1.1%
Cigarette Taxes	\$ 100	\$ 88	\$ (12)	-12.0%
Inheritance Tax (gross)	\$ 75	\$ 75	\$ -	0.0%
Liquor Gallonage Taxes	\$ 39	\$ 39	\$ -	0.0%
Insurance Tax and Fees	\$ 65	\$ 66	\$ 1	1.5%
Corp. Franchise Tax and Fees	\$ 49	\$ 45	\$ (4)	-8.2%
Investment Income	\$ 34	\$ 52	\$ 18	52.9%
Cook County IGT	\$ 49	\$ 56	\$ 7	14.3%
Riverboat Gambling Taxes	\$ -	\$ -	\$ -	0.0%
Other	\$ 99	\$ 96	\$ (3)	-3.0%
Total, Other State Revenues	\$ 782	\$ 786	\$ 4	0.5%
Total, State Revenues	\$ 4,533	\$ 4,775	\$ 242	5.3%
Federal Revenues:				
Total, Revenues	\$ 1,559	\$ 969	\$ (590)	-37.8%
	\$ 6,092	\$ 5,744	\$ (348)	-5.7%
Transfers In:				
State Lottery Fund	\$ 161	\$ 142	\$ (19)	-11.8%
State Gaming Fund	\$ 180	\$ 190	\$ 10	5.6%
Other State Funds	\$ 93	\$ 105	\$ 12	12.9%
Total, Transfers In	\$ 434	\$ 437	\$ 3	0.7%
Total, Operating Cash Receipts	\$ 6,526	\$ 6,181	\$ (345)	-5.3%
Cash Flow Transfer-Hospital Provider Fund	\$ -	\$ -	\$ -	0.0%
Short-Term Borrowing	\$ 1,000	\$ -	\$ (1,000)	-100.0%
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%
TOTAL, CASH RECEIPTS	\$ 7,526	\$ 6,181	\$ (1,345)	-17.9%

APPENDIX II

GENERAL FUNDS

Cash Flow Summary

Second Quarter FY06 vs. FY07

(in millions)

	Second Quarter		Change		YTD		Change	
	FY 2006	FY 2007	Amount	Percent	FY 2006	FY 2007	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 600	\$ 597	\$ (3)		\$ 497	\$ 590	\$ 93	
Total Revenues	\$ 6,092	\$ 5,744	\$ (348)	-5.7%	\$ 12,053	\$ 11,861	\$ (192)	-1.6%
Total Transfers In	\$ 434	\$ 437	\$ 3	0.7%	\$ 866	\$ 984	\$ 118	13.6%
Total, Operating Cash Receipts	\$ 6,526	\$ 6,181	\$ (345)	-5.3%	\$ 12,919	\$ 12,845	\$ (74)	-0.6%
Cash Flow Transfer - Hospital Provider Fund	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	0.0%	\$ 276	\$ 276	\$ -	0.0%
Short-term Borrowing Proceeds	\$ 1,000	\$ -	\$ (1,000)	-100.0%	\$ 1,000	\$ -	\$ (1,000)	-100.0%
TOTAL, CASH RECEIPTS	\$ 7,526	\$ 6,181	\$ (1,345)	-17.9%	\$ 14,195	\$ 13,121	\$ (1,074)	-7.6%
Disbursements:								
Awards and Grants:								
State Board of Education	\$ 1,538	\$ 1,619	\$ 81	5.3%	\$ 2,749	\$ 2,910	\$ 161	5.9%
Healthcare & Family Services	\$ 2,010	\$ 1,662	\$ (348)	-17.3%	\$ 4,189	\$ 3,479	\$ (710)	-16.9%
Human Services	\$ 745	\$ 719	\$ (26)	-3.5%	\$ 1,596	\$ 1,573	\$ (23)	-1.4%
Teachers Retirement	\$ 152	\$ 204	\$ 52	34.2%	\$ 304	\$ 407	\$ 103	33.9%
Higher Education	\$ 219	\$ 225	\$ 6	2.7%	\$ 401	\$ 408	\$ 7	1.7%
All Other Grants	\$ 355	\$ 354	\$ (1)	-0.3%	\$ 668	\$ 689	\$ 21	3.1%
Total, Awards and Grants	\$ 5,019	\$ 4,783	\$ (236)	-4.7%	\$ 9,907	\$ 9,466	\$ (441)	-4.5%
Operations:								
Other Agencies	\$ 1,229	\$ 1,268	\$ 39	3.2%	\$ 2,485	\$ 2,589	\$ 104	4.2%
Higher Education	\$ 527	\$ 439	\$ (88)	-16.7%	\$ 913	\$ 812	\$ (101)	-11.1%
Total, Operations	\$ 1,756	\$ 1,707	\$ (49)	-2.8%	\$ 3,398	\$ 3,401	\$ 3	0.1%
Regular Transfers Out	\$ 612	\$ 567	\$ (45)	-7.4%	\$ 1,285	\$ 1,389	\$ 104	8.1%
All Other (Includes Prior Year Adjustments)	\$ 1	\$ 2	\$ 1	100.0%	\$ 6	\$ 7	\$ 1	16.7%
Vouchers Payable Adjustment	\$ 252	\$ (710)	\$ (962)	-381.7%	\$ (390)	\$ (981)	\$ (591)	-151.5%
Total, Base Expenditures	\$ 7,640	\$ 6,349	\$ (1,291)	-16.9%	\$ 14,206	\$ 13,282	\$ (924)	-6.5%
Cash Flow Transfer - Hospital Provider Fund	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
Transfers to Repay Short-Term Borrowing	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
TOTAL, DISBURSEMENTS	\$ 7,640	\$ 6,349	\$ (1,291)	-16.9%	\$ 14,206	\$ 13,282	\$ (924)	-6.5%
CASH BASIS INCREASE (DECREASE)	\$ (114)	\$ (168)	\$ (54)	47.4%	\$ (11)	\$ (161)	\$ (150)	1363.6%
AVAILABLE CASH BALANCE, BEGINNING	\$ 600	\$ 597	\$ (3)	-0.5%	\$ 497	\$ 590	\$ 93	18.7%
AVAILABLE CASH BALANCE, ENDING	\$ 486	\$ 429	\$ (57)	-11.7%	\$ 486	\$ 429	\$ (57)	-11.7%