



ROD BLAGOJEVICH
GOVERNOR

STATE OF ILLINOIS
GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

JOHN B. FILAN
DIRECTOR

FISCAL YEAR 2005 THIRD QUARTER FINANCIAL REVIEW

Table I
OPERATING HIGHLIGHTS*
Third Quarter
FY2004 vs. FY2005
(in millions)

	Third Quarter				YTD			
	FY 04	FY 05	Change	% Change	FY 04	FY 05	Change	% Change
OPERATIONS								
General Funds Revenues**	\$ 5,594	\$ 6,108	\$ 514	9.2%	\$ 16,750	\$ 17,394	\$ 644	3.8%
Operating Transfers In	\$ 599	\$ 441	\$ (158)	-26.4%	\$ 1,574	\$ 1,546	\$ (28)	-1.8%
Total Revenues and Operating Transfers In	\$ 6,193	\$ 6,549	\$ 356	5.7%	\$ 18,324	\$ 18,940	\$ 616	3.4%
Pension Obligation								
Reimbursement Transfers	\$ 437	\$ -	\$ (437)	-100.0%	\$ 1,402	\$ -	\$ (1,402)	-100.0%
Transfers In from Hospital Provider Fund***	\$ -	\$ 763	\$ 763	N/A	\$ -	\$ 763	\$ 763	N/A
Total Operating Receipts	\$ 6,630	\$ 7,312	\$ 682	10.3%	\$ 19,726	\$ 19,703	\$ (23)	-0.1%
General Funds Expenditures	\$ 5,713	\$ 6,545	\$ 832	14.6%	\$ 17,901	\$ 16,966	\$ (935)	-5.2%
Operating Transfers Out****	\$ 524	\$ 715	\$ 191	36.5%	\$ 1,399	\$ 2,039	\$ 640	45.7%
Total Operating Disbursements	\$ 6,237	\$ 7,260	\$ 1,023	16.4%	\$ 19,300	\$ 19,005	\$ (295)	-1.5%
Cash Basis Operating Surplus/(Deficit)	\$ 393	\$ 52	\$ (341)	-86.8%	\$ 426	\$ 698	\$ 272	63.8%

*Refer to Appendix I for details.

**FY04 revenues include Tax Amnesty Receipts.

***Transfers associated with additional federal Medicaid reimbursements and revenues from the Hospital Assessment Tax initially deposited to the Hospital Provider Fund.

****Excludes Transfer Out to repay Short-Term Borrowing, which is shown in Table II as a Financing Use.

OPERATING HIGHLIGHTS

As illustrated in Table I and detailed in Appendix I, total state and federal revenues totaled \$6,108 million, or \$514 million (9.2%) above FY2004's level. Total Revenues and Operating Transfers In for the third quarter of FY2005 were \$6,549 million, a \$356 million (5.7%) increase from comparable collections of FY2004. These increases were primarily attributable to economic expansion. Total Operating Receipts increased by \$682 million (10.3%) due to the \$763 million Transfer in from Hospital Provider Fund in FY2005.

Total expenditures were up by 16.4% or \$1.023 billion in the third quarter of FY2005 although remained less than FY2004 year-to-date, primarily due to disbursements that reduced outstanding payables as well as an increase in cash disbursements.

The State issued \$765 million in short-term borrowing in March 2005 as a means of increasing Federal Medicaid reimbursements and will repay \$770 million (including \$5 million interest) on June 3, 2005. After their expenditure, the resulting federal revenue match and revenues from the Hospital Assessment Tax were transferred back into GRF. The State will have a net savings in interest costs of \$18 million as a result of the short-term borrowing.

REVENUES AND OPERATING TRANSFERS IN

As detailed in Appendix I and excluding Federal revenues, total State Revenues increased by \$419 million or 9.4%. All major state revenue sources were up from FY2004, except for Insurance Taxes and Fees.

- **Income Taxes (\$281 million increase):** Gross Individual Income Tax collections were up by 9.8% or \$212 million from the third quarter of FY2004. The \$124 million Voluntary Compliance Program (VCP) receipts, originally budgeted at \$100 million, explained part of the increase, while the remainder was an indication of the improving economy. The year-to-date increase in Gross Individual Income tax was \$317 million, or 5.5%.

Gross Corporate Income Tax collections were up 9.5% or \$33 million in the third quarter, due to the expanding economy. Year-to-date Gross Corporate Income Tax collections were down by \$17 million or 1.8%. Excluding the tax amnesty factor in FY2004, the year-to-date Gross Corporate Income Taxes would have been up by \$182 million, or 19%.

Net income tax revenues deposited into the General Funds increased by \$281 million in the third quarter. The increase included a \$36 million reduction of deposits into the Income Tax Refund Fund, reflecting the reduction of the Income Tax Refund backlog. Through the first nine months of FY2005, net income tax receipts were \$438 million or 7.6% above the prior year's level.

- **Sales Taxes (\$81 million increase):** Sales Taxes were up 5.4% in the third quarter of FY2005 compared to a year ago. In the first nine months, Sales Taxes have increased by \$181 million or 3.8%. Excluding the tax amnesty receipts collected in FY2004, the year-to-date increase would have been \$275 million or 5.8% over the base revenues.
- **Inheritance Taxes (\$42 million increase):** The 81% growth was primarily due to the settlement of large estates and the decoupling from federal tax requirements that occurred last year.
- **Public Utility Taxes (\$9 million increase):** Temperatures have been warmer than average, yet Electricity and Natural Gas receipts have increased 3% this quarter. The increased usage is likely due to an improving economy.
- **Insurance Taxes and Fees (\$18 million decrease):** The \$18 million (24%) decrease was primarily due to a significant increase in the retaliatory tax offset in calendar year 2004 for taxes collected in FY2005.

- **All Other Revenues (\$24 million increase):** Investment Income and Liquor Gallonage Taxes increased by \$7 million and \$5 million, respectively, in the third quarter of FY2005. Corporate Franchise Tax and Fees and Cook County Intergovernmental Transfers increased by \$3 million in combination. Other state sources went up by \$9 million mainly due to an increase in fee receipts.
- **Operating Transfers In (\$158 million decrease):** The change was partly due to a \$97 million decrease in Administrative Chargebacks in the third quarter. Another \$45 million was attributable to the decrease in Efficiency Initiative Revolving Fund transfers. Both transfers were budgeted at lesser amounts for FY2005. No Transfers In from the Pension Contribution Fund are scheduled for FY2005.
- **Federal Revenues (\$95 million increase):** In the third quarter, federal revenues totaled \$1,232 million. Although the Medicaid reimbursement rate dropped from 53% in prior fiscal year to 50%, for FY2005, the increase of federal match related to the \$765 million short-term borrowing in March 2005 resulted in a net increase of \$95 million (8.4%) federal revenues in the third quarter.

DISBURSEMENTS (EXPENDITURES AND TRANSFERS OUT)

As further detailed in Appendix II, total cash disbursements were \$7,260 million, an increase of \$1,023 million (16.4%) for the quarter, but year-to-date still remains below FY2004. Excluding the \$347 million paydown of outstanding vouchers payables carried over from the second quarter, the increase of cash expenditures was \$676 million.

Award and Grants (\$365 million increase): The increased spending of 10.1% during the second quarter included Public Aid, State Board of Education, Human Services, Higher Education and All Other Grants. The \$262 million (29.6%) increased spending in Public Aid was due to the reduction of Medicaid liabilities in the third quarter. However, year-to-date cash disbursements were \$415 million (or 9.3%) lower than last fiscal year's level. State Board of Education spending increased by \$75 million (5.8%) reflecting the increase in budgeted appropriations. The \$21 million (3.1%) increase in Human Services spending was due to increased FY2005 appropriations in Child Care and Home Services Programs, Developmental Disabilities grants, and advanced payment for fee-for-service contracts.

Operations (\$119 million increase): In the third quarter, total Operations Disbursements increased by \$119 million (7.7%). However, year-to-date expenditures were \$64 million lower than last year's level. The increase in the third quarter was primarily due to reducing accounts payable.

Operating Transfers Out (\$191 million increase): Operating Transfers Out increased by 36.4% over last year's level, primarily due to increased debt service transfers to repay general obligation bonds, which was approximately \$136 million.

Transfers to Repay Short-Term Borrowing (\$400 million decrease): There was no repayment of short-term borrowing in the third quarter of FY2005.

FINANCIAL POSITION

In the third quarter of FY2005, Total Cash Receipts exceeded Total Cash Disbursements by \$52 million, increasing the State's General Funds cash balance from \$251 million on December 31, 2004, to \$303 million on March 31, 2005. A Summary is provided in Table II and details are included in Appendix II.

Liquidity

Current liabilities decreased by \$93 million from the comparative period last year. General Funds Accounts Payable decreased marginally from \$693 million during the third quarter of FY2004 to \$674 million in the same period of FY2005. Income Tax Refund liabilities decreased from \$153 million in the third quarter of last fiscal year to \$79 million by the end of the third quarter of FY2005.

FY2004 vs. FY2005

(in millions)

	<u>FY 04</u>	<u>FY 05</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (12/31)	\$ 346	\$ 251	\$ (95)
Cash Basis Operating Surplus/(Deficit) in the Third Quarter	\$ 393	\$ 52	\$ (341)
Short-Term Borrowing	\$ -	\$ 765	\$ 765
Transfer Out to Repay Short-Term Borrowing	\$ (400)	\$ -	\$ 400
Cash Flow Transfer to Hospital Provider Fund	\$ -	\$ (765)	\$ (765)
Transfer In from Budget Stabilization Fund	\$ -	\$ -	\$ -
General Funds Cash Balance (3/31)	\$ 339	\$ 303	\$ (36)
Budget Stabilization Fund Cash Balance (3/31)	\$ -	\$ -	\$ -
Total Cash Balance (12/31)	\$ 339	\$ 303	\$ (36)
CURRENT LIABILITIES			
General Funds Accounts Payable (3/31)	\$ 693	\$ 674	\$ (19)
Income Tax Refunds Payable (3/26)	\$ 153	\$ 79	\$ (74)
Total	\$ 846	\$ 753	\$ (93)

APPENDIX I
CASH RECEIPTS
Third Quarter FY04 vs. FY05
(in millions)

	Third Quarter		Change		YTD		Change	
	FY 2004	FY2005	Amount	Percent	FY 2004	FY2005	Amount	Percent
Cash Basis Receipts:								
State Revenues:								
Gross Individual Income Tax	\$ 2,155	\$ 2,367	\$ 212	9.8%	\$ 5,765	\$ 6,082	\$ 317	5.5%
Gross Corporate Income Tax	\$ 347	\$ 380	\$ 33	9.5%	\$ 954	\$ 937	\$ (17)	-1.8%
Deposits to Income Tax Refund Fund	\$ (364)	\$ (328)	\$ 36	-9.9%	\$ (982)	\$ (844)	\$ 138	-14.1%
Total, Net Income Taxes	\$ 2,138	\$ 2,419	\$ 281	13.1%	\$ 5,737	\$ 6,175	\$ 438	7.6%
Sales Taxes	\$ 1,509	\$ 1,590	\$ 81	5.4%	\$ 4,742	\$ 4,923	\$ 181	3.8%
Other State Revenues:								
Public Utility Taxes	\$ 285	\$ 294	\$ 9	3.2%	\$ 806	\$ 805	\$ (1)	-0.1%
Cigarette Taxes	\$ 100	\$ 100	\$ -	0.0%	\$ 300	\$ 350	\$ 50	16.7%
Inheritance Tax (gross)	\$ 52	\$ 94	\$ 42	80.8%	\$ 152	\$ 232	\$ 80	52.6%
Liquor Gallonage Taxes	\$ 30	\$ 35	\$ 5	16.7%	\$ 94	\$ 111	\$ 17	18.1%
Insurance Tax and Fees	\$ 75	\$ 57	\$ (18)	-24.0%	\$ 228	\$ 225	\$ (3)	-1.3%
Corp. Franchise Tax and Fees	\$ 45	\$ 46	\$ 1	2.2%	\$ 120	\$ 133	\$ 13	10.8%
Investment Income	\$ 12	\$ 19	\$ 7	58.3%	\$ 42	\$ 47	\$ 5	11.9%
Cook County IGT	\$ 104	\$ 106	\$ 2	1.9%	\$ 280	\$ 299	\$ 19	6.8%
Other ¹	\$ 107	\$ 116	\$ 9	8.4%	\$ 241	\$ 321	\$ 80	33.2%
Total, Other State Revenues	\$ 810	\$ 867	\$ 57	7.0%	\$ 2,263	\$ 2,523	\$ 260	11.5%
Total, State Revenues	\$ 4,457	\$ 4,876	\$ 419	9.4%	\$ 12,742	\$ 13,621	\$ 879	6.9%
Federal Revenues:								
Cash Receipts	\$ 1,117	\$ 1,222	\$ 105	9.4%	\$ 3,967	\$ 3,275	\$ (692)	-17.4%
Transfers In ²	\$ 20	\$ 10	\$ (10)	-50.0%	\$ 41	\$ 498	\$ 457	1114.6%
Total, Federal Revenues	\$ 1,137	\$ 1,232	\$ 95	8.4%	\$ 4,008	\$ 3,773	\$ (235)	-5.9%
Total, Revenues	\$ 5,594	\$ 6,108	\$ 514	9.2%	\$ 16,750	\$ 17,394	\$ 644	3.8%
Transfers In:								
Lottery Fund	\$ 167	\$ 158	\$ (9)	-5.4%	\$ 417	\$ 438	\$ 21	5.0%
State Gaming Fund	\$ 98	\$ 121	\$ 23	23.5%	\$ 493	\$ 518	\$ 25	5.2%
Other Funds ³	\$ 334	\$ 162	\$ (172)	-51.5%	\$ 664	\$ 590	\$ (74)	-11.2%
Total, Transfers In	\$ 599	\$ 441	\$ (158)	-26.4%	\$ 1,574	\$ 1,546	\$ (28)	-1.8%
Total, Revenues and Transfers In	\$ 6,193	\$ 6,549	\$ 356	5.7%	\$ 18,324	\$ 18,940	\$ 616	3.4%
Transfer from Pension Contribution Fund ⁴	\$ 437	\$ -	\$ (437)	-100.0%	\$ 1,402	\$ -	\$ (1,402)	-100.0%
Cash Flow Transfer-Hospital Provider Fund ⁵	\$ -	\$ 763	\$ 763	n/a	\$ -	\$ 763	\$ 763	n/a
Total, Operating Cash Receipts	\$ 6,630	\$ 7,312	\$ 682	10.3%	\$ 19,726	\$ 19,703	\$ (23)	-0.1%
Short-Term Borrowing	\$ -	\$ 765	\$ 765	n/a	\$ -	\$ 765	\$ 765	n/a
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	n/a	\$ 226	\$ 276	\$ 50	22.1%
TOTAL, CASH RECEIPTS	\$ 6,630	\$ 8,077	\$ 1,447	21.8%	\$ 19,952	\$ 20,744	\$ 792	4.0%

¹ Does not include Riverboat Gaming Taxes, which are included in Transfers In from State Gaming Fund.

² Includes \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid used to generate additional federal reimbursement in FY04.

³ FY04 Other Transfers In restated to include the \$144 million transfers that should have taken place in June 2003 but were actually posted on July 1, 2003. This amount was previously included in FY 2003 year-end totals.

FY05 Other Transfers In does not include the \$433 million federal reimbursement resulting from the \$850 million Short-Term Borrowing for Medicaid. Administrative chargebacks and fund sweeps are fully reflected in Other Tr

⁴ Includes the Retirement Contribution by Employer. These are FY04 transfers only, not comparable in FY05.

⁵ Cash flow transfer related to the \$765 million inner year short-term borrowing.

APPENDIX II
GENERAL FUNDS
Cash Flow Summary
Third Quarter FY04 vs. FY05
(in millions)

	Third Quarter		Change		YTD		Change	
	FY 2004	FY 2005	Amount	Percent	FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 346	\$ 251	\$ (95)	-27.5%	\$ 317	\$ 182	\$ (135)	-42.6%
Total Revenues	\$ 5,594	\$ 6,108	\$ 514	9.2%	\$ 16,750	\$ 17,394	\$ 644	3.8%
Total Transfers In ¹	\$ 599	\$ 441	\$ (158)	-26.4%	\$ 1,574	\$ 1,546	\$ (28)	-1.8%
Total, Revenues and Transfers In	\$ 6,193	\$ 6,549	\$ 356	5.7%	\$ 18,324	\$ 18,940	\$ 616	3.4%
Transfer from Pension Contribution Fund ²	\$ 437	\$ -	\$ (437)	-100.0%	\$ 1,402	\$ -	\$ (1,402)	-100.0%
Cash Flow Transfer - Hospital Provider Fund ⁴	\$ -	\$ 763	\$ 763	n/a	\$ -	\$ 763	\$ 763	n/a
Total, Operating Cash Receipts	\$ 6,630	\$ 7,312	\$ 682	10.3%	\$ 19,726	\$ 19,703	\$ (23)	-0.1%
Short-Term Borrowing	\$ -	\$ 765	\$ 765	n/a	\$ -	\$ 765	\$ 765	n/a
Transfer from Budget Stabilization Fund	\$ -	\$ -	\$ -	n/a	\$ 226	\$ 276	\$ 50	22.1%
TOTAL, CASH RECEIPTS	\$ 6,630	\$ 8,077	\$ 1,447	21.8%	\$ 19,952	\$ 20,744	\$ 792	4.0%
Disbursements:								
Awards and Grants:								
State Board of Education	\$ 1,298	\$ 1,373	\$ 75	5.8%	\$ 3,799	\$ 4,020	\$ 221	5.8%
Public Aid	\$ 885	\$ 1,147	\$ 262	29.6%	\$ 4,460	\$ 4,045	\$ (415)	-9.3%
Human Services	\$ 682	\$ 703	\$ 21	3.1%	\$ 2,070	\$ 2,245	\$ 175	8.5%
Teachers Retirement	\$ 246	\$ 243	\$ (3)	-1.2%	\$ 744	\$ 690	\$ (54)	-7.3%
Higher Education	\$ 244	\$ 251	\$ 7	2.9%	\$ 621	\$ 613	\$ (8)	-1.3%
All Other Grants	\$ 263	\$ 266	\$ 3	1.1%	\$ 910	\$ 936	\$ 26	2.9%
Total, Awards and Grants	\$ 3,618	\$ 3,983	\$ 365	10.1%	\$ 12,604	\$ 12,549	\$ (55)	-0.4%
Operations:								
Other Agencies	\$ 1,102	\$ 1,215	\$ 113	10.3%	\$ 3,623	\$ 3,688	\$ 65	1.8%
Higher Education	\$ 448	\$ 454	\$ 6	1.3%	\$ 1,389	\$ 1,260	\$ (129)	-9.3%
Total, Operations	\$ 1,550	\$ 1,669	\$ 119	7.7%	\$ 5,012	\$ 4,948	\$ (64)	-1.3%
Regular Transfers Out	\$ 524	\$ 715	\$ 191	36.4%	\$ 1,399	\$ 2,039	\$ 640	45.7%
All Other (Includes Prior Year Adjustments)	\$ -	\$ 1	\$ 1	n/a	\$ 14	\$ 52	\$ 38	271.4%
Vouchers Payable Adjustment ¹	\$ 545	\$ 892	\$ 347	63.7%	\$ 271	\$ (583)	\$ (854)	n/a
Total, Base Expenditures	\$ 6,237	\$ 7,260	\$ 1,023	16.4%	\$ 19,300	\$ 19,005	\$ (295)	-1.5%
Transfers to Repay Short-Term Borrowing ³	\$ 400	\$ -	\$ (400)	-100.0%	\$ 630	\$ 853	\$ 223	n/a
Cash Flow Transfer - Hospital Provider Fund ⁴	\$ -	\$ 765	\$ 765	n/a	\$ -	\$ 765	\$ 765	n/a
TOTAL, DISBURSEMENTS	\$ 6,637	\$ 8,025	\$ 1,388	20.9%	\$ 19,930	\$ 20,623	\$ 693	3.5%
AVAILABLE CASH BALANCE, ENDING	\$ 339	\$ 303	\$ (36)	-10.6%	\$ 339	\$ 303	\$ (36)	-10.6%

¹ FY04 Other Transfers and Vouchers Payable Adjustment restated to include the \$144 million transfers that should have taken place in June 2003 but were posted on July 1, 2003. This amount was previously included in FY2003 year-end receipts/disbursement.

² FY04 transfers only, not comparable in FY05.

³ This is the repayment related to the \$830 million short-term borrowing for Medicaid used to generate additional federal reimbursement in FY 04. The Comptroller's Office included these transfers in the Regular Transfers Out.

⁴ Cash flow transfers related to the \$765 million inner year short-term borrowing.

Source: Office of the Comptroller and GOMB