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MANAGEMENT AND BUDGET

**FISCAL YEAR 2006 – YEAR END FINANCIAL OVERVIEW**

**FISCAL YEAR 2006 OPERATING HIGHLIGHTS**

**Table I**  
**OPERATING HIGHLIGHTS\***  
**FY2005 vs. FY2006**  
(in millions)

	<u>FY 05</u>	<u>FY 06</u>	<u>Change</u>	<u>% Change</u>
<b>OPERATIONS</b>				
General Funds Revenues	\$ 23,647	\$ 25,258	\$ 1,611	6.8%
Operating Transfers In *	2,513	2,101	(412)	-16.4%
<b>Total Operating Receipts</b>	<b>\$ 26,160</b>	<b>\$ 27,359</b>	<b>\$ 1,199</b>	<b>4.6%</b>
General Funds Expenditures*	\$ 22,187	\$ 24,193	\$ 2,006	9.0%
Operating Transfers Out	3,658	3,059	(599)	-16.4%
<b>Total Operating Disbursements</b>	<b>\$ 25,845</b>	<b>\$ 27,252</b>	<b>\$ 1,407</b>	<b>5.4%</b>
<b>Cash Basis Operating Surplus/(Deficit)*</b>	<b>\$ 315</b>	<b>\$ 107</b>	<b>\$ (208)</b>	<b>N/A</b>
<b>Other Financial Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (14)</b>	<b>\$ (14)</b>	<b>0.0%</b>
<b>Increase/(Decrease) in Cash *</b>	<b>\$ 315</b>	<b>\$ 93</b>	<b>\$ (222)</b>	

\* Refer to Appendices I and II details.

**Revenues and Operating Transfers In**

As illustrated in Table I and detailed in Appendix II, Revenues and Operating Transfers In collected in fiscal year 2006 were \$27,359 million, which was a \$1,199 million or 4.6% increase over the comparable collections of fiscal year 2005. State Revenues increased by \$1,143 million or 5.9%, primarily driven by growth in income and sales taxes. These taxes are economically sensitive revenue sources that reflect the overall improvement in the Illinois economy which continued in fiscal year 2006. Federal receipts increased by \$468 million, or 11.0% from prior year levels. That significant increase was due in part by reduced fiscal year 2005 spending directly linked with increased 2004 spending. By paying bills in fiscal year 2004 that otherwise would have been paid in 2005, the State was able to capture additional 2004 Federal receipts from a one-time higher reimbursement rate (52.95% vs. 50%) that was in effect during fiscal 2004. The \$412 million decrease in Operating Transfers In was caused primarily by a one-time transfer during fiscal year 2005 of \$434 million from the Medicaid Provider Fund to pay debt service for the short term borrowing that occurred in June of fiscal year 2004 used to accelerate Federal reimbursements as described above.

As detailed in Appendix I, several sources of fiscal year 2006 revenues were above fiscal year 2005 levels. These included:

- **Income Taxes (\$912 million increase):** Net of transfers to the Income Tax Refund Fund, individual income taxes collected in fiscal year 2006 increased by 8.2% or \$656 million from fiscal year 2005 and corporate income tax collections increased 21.8% or \$256 million. Both increases were due to the improving economy. These increases reflect higher employment in Illinois, exceeding levels prior to the 2001 recession and high profitability of corporations doing business in Illinois.
- **Sales Taxes (\$497 million increase):** Sales taxes were up 7.5% in fiscal year 2006 compared to the prior year, again reflecting the continued growth in the Illinois economy. Auto sales were particularly strong as boosted by rebates and low interest rate incentives offered by manufacturers during the fiscal year.
- **Inheritance Taxes (\$38 million decrease):** Inheritance taxes declined 12.3% compared to the same collection period during fiscal year 2005. By its very nature, year-to-year changes are fundamentally random.
- **Public Utility Taxes (\$18 million increase):** Public Utility Taxes rose by 1.7% in fiscal year 2006. Electric tax receipts grew but were partially offset by declines in telecommunication taxes and gas tax receipts. Although Natural Gas Taxes reported a decrease of \$8.2 million and Telecommunication reflected a decrease of \$12.5 million, the overall Public Utility Tax receipts did experience an increase of \$18 million because the Electric Tax component reported an increase of \$37.7 million. That increase was, in part, attributable to unseasonably hot summer periods at the beginning and end of fiscal year 2006.
- **Insurance Taxes and Fees (\$25 million decrease):** The \$25 million (7.3%) decrease was primarily due to a significant increase in corporate income tax payments that are allowed as credits against owed insurance tax liabilities.
- **Gaming and Lottery (\$46 million increase):** Gaming decreased by a net \$10 million (5.4%) between direct deposits to the General Revenue Fund (decrease of \$148 million) and increased Transfers In (\$138 million) from the Gaming Fund. In fiscal year 2004 a gaming tax rate increase was adopted as part of a multi-component deficit reduction package adopted that year. The incremental revenues were deposited directly into GRF by statute. Legislation adopted in 2005 rolled back the gaming tax rates as an incentive to the industry in return for additional capital investment and marketing promotions by the industry. The roll-back legislation also provided for a “hold harmless” clause whereby the industry effectively guaranteed a minimum payment approximately equal to the prior year’s collections. The hold harmless payments were deposited into the Gaming Fund and transferred into GRF during the year. As a result, direct deposits into GRF of gambling taxes decreased by \$148 million or 97.4% largely offset by increased transfers from the Gaming Fund of \$138 million or 25.2%. Lottery receipts grew by \$56 million (9.1% increase) associated with the improving economy as well as a number of large Mega Million jackpots that generally result in additional sales.
- **All Other Sources (\$73 million decrease):** Investment Income increased by \$80 million during fiscal year 2006 due to higher interest rates and larger cash balances. Liquor Gallonage Taxes increased by \$5 million. Cook County Intergovernmental Transfers decreased \$83 million, or 19.2% associated with a previously scheduled reduction in Federal reimbursements. Cigarette Taxes decreased by \$50 million or 11.1% due to a one-time reallocation to General Funds in 2005. Other State sources decreased by \$25 million or 5.0%.

- **Federal Receipts (\$468 million increase):** Fiscal Year 2006 Federal revenues increased by \$468 million (11.0% increase) due to a growth in Medicaid spending in prior years associated with maximizing reimbursements. These maximization efforts in late fiscal year 2004 resulted in less Federal revenue in fiscal year 2005 as previously described.

## **Expenditures and Transfers Out**

As shown in Appendix II, fiscal year 2006 total Expenditures and Cash Transfers Out increased by \$1,407 million (5.4% increase) from fiscal year 2005. That increase was primarily attributable to a planned increase in Medicaid spending.

### **Operating Highlights:**

- **Awards and Grants (\$1,432 million increase):** The increase is primarily from Medicaid spending (\$1,290 million increase or 26.5%) in 2006, as previously described, associated with the atypically low 2005 Medicaid spending since \$850 million of fiscal year 2005 spending was accelerated into fiscal year 2004. Elementary and Secondary Education grants were up \$297 million (5.2%) from fiscal year 2005 spending. Human Services and Higher Education grant spending increased \$91 million (3.3%) and \$30 million (3.9%), respectively. Teachers Retirement grants were down \$325 million (34.8%) from fiscal year 2005 due to recognition of savings from future benefits cost reductions. However, prior year's contributions were dramatically increased due to the deposit of pension bond proceeds in the retirement funds, an offset much greater than the above reduction. The decline is due to a statutory decrease in payments to the pension system from 2005.
- **Operations (\$43 million increase):** Higher Education operating expenditures decreased by \$27 million (1.9%), primarily due to pension payments analogous to those described above. For all other agencies combined, Operating expenditures increased by \$70 million (1.4%).
- **Transfers Out (\$599 million decrease):** Transfers Out decreased by \$599 million (16.4%) in fiscal year 2005, due to reduced transfers relating to short term borrowing, which accounted for \$578 million of the decrease. Additional major variances included \$80 million less to the Facilities Management Revolving Fund and \$895 million decrease to the Hospital Provider Fund also related to the short term borrowing. Increased transfers of \$454 million went to the Common School Fund and \$100 million additional transfers went to the Local Government Distributive Fund.

## FINANCIAL POSITION

The overall liquidity position of the State improved by \$183 million during fiscal year 2006. Current Liabilities decreased by \$90 million while Cash increased by \$93 million. A summary is provided in Table II and details are included in Appendix II.

**Table II**  
**FINANCIAL POSITION**  
**FY2005 vs. FY2006**  
(in millions)

	<u>FY 05</u>	<u>FY 06</u>	<u>Change</u>
<b>OPERATING CASH BALANCE</b>			
General Funds Cash Balance (6/30)	\$ 497	\$ 590	\$ 93
Budget Stabilization Fund Cash Balance (6/30)	276	276	-
Total Cash Balance (6/30)	<u>\$ 773</u>	<u>\$ 866</u>	<u>\$ 93</u>
Income Tax Refunds Payable (6/30):	0	0	0
<b>KEY CURRENT LIABILITIES</b>			
General Funds Accounts Payable (6/30)	\$ 971	\$ 881	\$ (90)
Total Current Liabilities	<u>\$ 971</u>	<u>\$ 881</u>	<u>\$ (90)</u>
Cash Balance of Income Tax Refund Fund	\$ 139	\$ 122	\$ (17)

## FISCAL YEAR 2006 BUDGETARY COMPARISONS

The fiscal year 2006 budget was based on General Fund revenues originally projected at \$26,670 million and subsequently adjusted to \$27,095 million. The adjusted budget was reflected in the fiscal year 2007 proposed Budget submitted to the General Assembly in February 2006. Table III summarizes the final adjusted budget versus fiscal year 2006 actual performance.

As detailed in Appendix III, fiscal year 2006 actual General Fund sources (excluding short-term borrowing and Hospital Provider Fund pass-through cash flows) totaled \$27,359 million, \$264 million or 1.0% more than the final budget. The additional growth in revenues, beyond the original fiscal year 2006 projected increase, was primarily due to Illinois' improving economy. Net Income Taxes and Sales Taxes were \$114 million (1.1%) and \$142 million (2.0%), respectively, more than the final adjusted budget. Federal revenue collections plus Federal Transfers In together surpassed estimates by \$13 million. General Funds disbursements were \$252 million (0.9%) over budgeted amounts, reflecting the spring supplemental appropriation and a reduction in accounts payable during fiscal year 2006.

**Table III**  
**BUDGETARY COMPARISONS - HIGHLIGHTS\***  
**FY 2006**  
(in millions)

	FY06 <u>Budget</u>	FY06 <u>Actual</u>	<u>Change</u>	<u>% Change</u>
<b>BUDGETED OPERATIONS</b>				
General Funds Revenues	\$ 25,010	\$ 25,258	\$ 248	1.0%
Operating Transfers In*	2,085	2,101	16	0.8%
<b>Total Operating Receipts</b>	<b>\$ 27,095</b>	<b>\$ 27,359</b>	<b>\$ 264</b>	<b>1.0%</b>
General Funds Expenditures	\$ 24,111	\$ 24,193	\$ 82	0.3%
Operating Transfers Out *	2,889	3,059	170	5.9%
<b>Total Operating Disbursements</b>	<b>\$ 27,000</b>	<b>\$ 27,252</b>	<b>\$ 252</b>	<b>0.9%</b>
<b>Total Other Financial Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (14)</b>	<b>(14)</b>	<b>0.0%</b>
<b>Cash Basis Operating Increase/(Decrease)</b>	<b>\$ 95</b>	<b>\$ 93</b>	<b>\$ (2)</b>	<b>-2.1%</b>
<b>BUDGETED FINANCIAL POSITION</b>				
General Funds Cash Balance 7-1-05	\$ 497	\$ 497	\$ -	
Cash Basis Operating Increase/(Decrease) FY2006	10	93	83	
General Funds Cash Balance 6-30-06	\$ 507	\$ 590	\$ 83	
Budget Stabilization Fund Cash Balance	276	276	-	
<b>Total Cash Balance 6-30-06</b>	<b>\$ 783</b>	<b>\$ 866</b>	<b>\$ 83</b>	<b>10.6%</b>

\*Excludes receipts from Short-Term Borrowing and disbursements to repay those borrowings.

**APPENDIX I  
CASH RECEIPTS  
General Funds  
Fiscal Years 2005-2006  
(in millions)**

	Fiscal Year		Change	
	FY 2005	FY 2006	Amount	Percent
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	\$ 317	\$ 182	\$ (135)	-42.6%
<b>Operating Revenue Receipts:</b>				
State Sources, Cash Receipts:				
Gross Individual Income Tax	\$ 8,872	\$ 9,568	\$ 696	7.8%
Gross Corporate Income Tax	1,584	1,809	225	14.2%
Less Deposits to Income Tax Refund Fund	(1,305)	(1,314)	(9)	0.7%
<b>Net Income Taxes</b>	<b>\$ 9,151</b>	<b>\$ 10,063</b>	<b>\$ 912</b>	<b>10.0%</b>
Sales Taxes	\$ 6,595	\$ 7,092	\$ 497	7.5%
Other Sources:				
Public Utility Taxes	\$ 1,056	\$ 1,074	\$ 18	1.7%
Cigarette Taxes	450	400	(50)	-11.1%
Inheritance Tax (gross)	310	272	(38)	-12.3%
Liquor Gallonage Taxes	147	152	5	3.4%
Insurance Tax and Fees	342	317	(25)	-7.3%
Corporation Franchise Tax & Fees	181	181	-	0.0%
Investment Income	73	153	80	109.6%
Cook County IGT	433	350	(83)	-19.2%
Riverboat Gambling Taxes	152	4	(148)	-97.4%
Other	500	475	(25)	-5.0%
<b>Total, Other Sources</b>	<b>\$ 3,644</b>	<b>\$ 3,378</b>	<b>\$ (266)</b>	<b>-7.3%</b>
<b>Total, State Revenues (Cash Receipts)</b>	<b>\$ 19,390</b>	<b>\$ 20,533</b>	<b>\$ 1,143</b>	<b>5.9%</b>
<b>Federal Cash Receipts</b>	<b>\$ 4,257</b>	<b>\$ 4,725</b>	<b>\$ 468</b>	<b>11.0%</b>
<b>Total, Revenues</b>	<b>\$ 23,647</b>	<b>\$ 25,258</b>	<b>\$ 1,611</b>	<b>6.8%</b>
Transfers In:				
Lottery Fund	\$ 614	\$ 670	\$ 56	9.1%
State Gaming Fund	547	685	138	25.2%
Pension Contribution Fund	-	-	-	0.0%
Other State Funds	918	746	(172)	-18.7%
Federal Transfers In	434	-	(434)	-100.0%
<b>Total, Transfers In</b>	<b>\$ 2,513</b>	<b>\$ 2,101</b>	<b>\$ (412)</b>	<b>-16.4%</b>
<b>TOTAL, RECEIPTS (REVENUES AND TRANSFERS IN)</b>	<b>\$ 26,160</b>	<b>\$ 27,359</b>	<b>\$ 1,199</b>	<b>4.6%</b>

Source: Illinois Office of the Comptroller (IOC) and GOMB.

**APPENDIX II  
CASH FLOW SUMMARY  
General Funds  
Fiscal Years 2005-2006  
(in millions)**

	Fiscal Year		Change	
	FY 2005	FY 2006	Amount	Percent
<b>TOTAL, OPERATING CASH RECEIPTS</b>	\$ 26,160	\$ 27,359	\$ 1,199	4.6%
<b>(See Appendix I)</b>				
<b>Operating Disbursements:</b>				
Awards and Grants:				
State Board of Education	\$ 5,713	\$ 6,010	\$ 297	5.2%
Healthcare and Family Services	4,859	6,149	1,290	26.5%
Human Services	2,774	2,865	91	3.3%
Teachers Retirement	933	608	(325)	-34.8%
Higher Education	765	795	30	3.9%
All Other Grants	1,140	1,189	49	4.3%
<b>Total, Awards and Grants</b>	<b>\$ 16,184</b>	<b>\$ 17,616</b>	<b>\$ 1,432</b>	<b>8.8%</b>
Operations:				
Other Agencies	\$ 4,916	\$ 4,986	\$ 70	1.4%
Higher Education	1,431	1,404	(27)	-1.9%
Total, Operations	\$ 6,347	\$ 6,390	\$ 43	0.7%
All Other (Includes Prior Year Adjustments)	57	17	(40)	-70.2%
Vouchers Payable Adjustment (Change in Bills On Hand)	\$ (401)	\$ 170	\$ 571	N/A
<b>TOTAL, OPERATING EXPENDITURES</b>	<b>\$ 22,187</b>	<b>\$ 24,193</b>	<b>\$ 2,006</b>	<b>9.0%</b>
Regular Transfers Out	3,658	3,059	(599)	-16.4%
<b>TOTAL, OPERATING EXPENDITURES AND TRANSFERS OUT</b>	<b>\$ 25,845</b>	<b>\$ 27,252</b>	<b>\$ 1,407</b>	<b>5.4%</b>
<b>OPERATING CASH INCREASE/(DECREASE) <sup>1</sup></b>	<b>\$ 315</b>	<b>\$ 107</b>	<b>\$ (208)</b>	<b>-66.0%</b>
<b>Other Financial Sources (Uses)</b>				
Short-Term Borrowing Proceeds	\$ 765	\$ 1,000	\$ 235	
Transfers to Repay Short-Term Borrowing	(1,044)	(1,290)	(246)	23.6%
Transfers from Budget Stabilization Fund	276	276	-	0.0%
Net Cash Flow Transfers- Hospital Provider Fund	3	-	(3)	
<b>Total Other Financial Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (14)</b>	<b>\$ (14)</b>	
<b>CASH BASIS INCREASE (DECREASE) <sup>2</sup></b>	<b>\$ 315</b>	<b>\$ 93</b>	<b>\$ (222)</b>	
<b>AVAILABLE CASH BALANCE, BEGINNING</b>	<b>\$ 182</b>	<b>\$ 497</b>	<b>\$ 315</b>	
<b>AVAILABLE CASH BALANCE, ENDING</b>	<b>\$ 497</b>	<b>\$ 590</b>	<b>\$ 93</b>	

<sup>1</sup> Total Operating Cash Receipts minus Total Operating Expenditures and Transfers Out.

<sup>2</sup> Operating Cash Increase (Decrease) plus (minus) Total Other Financial Sources (Uses).

Source: Illinois Office of the Comptroller and GOMB.

**APPENDIX III**  
**FY2006 GENERAL FUNDS**  
**OPERATING CASH FLOWS - GENERAL FUNDS**  
**Enacted Budget vs. Actual**  
(in millions)

	FY2006		Actual Over (Under) Budget	
	Enacted Budget	Actual	Amount	Percent
<b>Cash Basis Receipts:</b>				
State Revenues:				
Gross Individual Income Tax	\$ 9,375	\$ 9,568	\$ 193	2.1%
Gross Corporate Income Tax	1,860	1,809	(51)	-2.7%
Deposits to Income Tax Refund Fund	(1,286)	(1,314)	(28)	
<b>Total, Net Income Taxes</b>	<b>\$ 9,949</b>	<b>\$ 10,063</b>	<b>\$ 114</b>	<b>1.1%</b>
<b>Sales Taxes</b>	<b>\$ 6,950</b>	<b>\$ 7,092</b>	<b>\$ 142</b>	<b>2.0%</b>
Other State Revenues:				
Public Utility Taxes	\$ 1,081	\$ 1,074	\$ (7)	-0.6%
Cigarette Taxes	400	400	-	0.0%
Inheritance Tax (Gross)	285	272	(13)	-4.6%
Liquor Gallonage Taxes	151	152	1	0.7%
Insurance Tax and Fees	320	317	(3)	-0.9%
Corp. Franchise Tax and Fees	191	181	(10)	-5.2%
Investment Income	98	153	55	56.1%
Cook County IGT	350	350	-	0.0%
Riverboat Gambling Taxes	-	4	4	0.0%
Other	523	475	(48)	-9.2%
<b>Total, Other State Revenues</b>	<b>\$ 3,399</b>	<b>\$ 3,378</b>	<b>\$ (21)</b>	<b>-0.6%</b>
<b>Total, State Revenues</b>	<b>\$ 20,298</b>	<b>\$ 20,533</b>	<b>\$ 235</b>	<b>1.2%</b>
Federal Cash Receipts	\$ 4,712	\$ 4,725	\$ 13	0.3%
<b>Total, Revenues</b>	<b>\$ 25,010</b>	<b>\$ 25,258</b>	<b>\$ 248</b>	<b>1.0%</b>
Transfers In:				
State Lottery Fund	\$ 636	\$ 670	\$ 34	5.3%
State Gaming Fund	678	685	7	1.0%
Other State Funds*	771	746	(25)	-3.2%
Federal Transfers In	-	-	-	N/A
<b>Total, Transfers In</b>	<b>\$ 2,085</b>	<b>\$ 2,101</b>	<b>\$ 16</b>	<b>0.8%</b>
<b>Total, Revenues and Transfers In</b>	<b>\$ 27,095</b>	<b>\$ 27,359</b>	<b>\$ 264</b>	<b>1.0%</b>
<b>Cash Basis Disbursements:</b>				
Awards and Grants:				
State Board of Education	\$ 6,078	\$ 6,010	\$ (68)	-1.1%
Healthcare and Family Services	6,326	6,149	(177)	-2.8%
Human Services	2,903	2,865	(38)	-1.3%
Teachers Retirement	610	608	(2)	-0.3%
Higher Education	790	795	5	0.6%
All Other Grants	1,203	1,189	(14)	-1.2%
<b>Total, Awards and Grants</b>	<b>\$ 17,910</b>	<b>\$ 17,616</b>	<b>\$ (294)</b>	<b>-1.6%</b>
Operations:				
Other Agencies	\$ 5,044	\$ 4,986	\$ (58)	-1.1%
Higher Education	1,405	1,404	(1)	-0.1%
<b>Total, Operations</b>	<b>6,449</b>	<b>6,390</b>	<b>(59)</b>	<b>-0.9%</b>
Less Governor's Savings Initiatives	-	-	-	
Less Lapsed Appropriations	(248)	-	248	
Regular Transfers Out*	2,889	3,059	170	5.9%
All Other (Includes Prior Year Adjustments)	-	17	17	
Vouchers Payable Adjustment (Change in Bills On Hand)	-	170	170	
<b>Total, Expenditures and Transfers Out</b>	<b>\$ 27,000</b>	<b>\$ 27,252</b>	<b>\$ 252</b>	<b>0.9%</b>

\*Transfers In and Transfers Out exclude Budget Stabilization Fund transfer of \$276 million.

Source: Illinois Office of the Comptroller and GOMB.