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GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2011 SECOND QUARTER FINANCIAL REVIEW (CASH BASIS)

GENERAL FUNDS HIGHLIGHTS

Fiscal year 2011 second quarter General Funds highlights, shown below, reflects a net operating YTD deficit of \$2,467 million.

Table I
GENERAL FUNDS HIGHLIGHTS
Second Quarter
FY2010 vs. FY2011
(in millions)

	YTD			
	<u>FY10</u>	<u>FY11</u>	<u>\$ Change</u>	<u>% Change</u>
General Funds Revenues	\$ 11,779	\$ 12,525	\$ 746	6%
Transfers In ¹	932	1,365	433	46%
Total Receipts	12,711	13,890	1,179	9%
General Funds Expenditures	12,051	11,938	(113)	-1%
Pension Contributions ²	1,710	1,916	206	12%
Transfers Out ¹	1,626	2,503	877	54%
Total Spending	15,387	16,357	970	6%
Net Operating Surplus/(Deficit)	\$ (2,676)	\$ (2,467)	\$ 209	-8%

¹Excludes short-term borrowing, Tobacco Settlement Fund, BSF, and intra-fund transfers.
Includes inter-fund borrowing

²Reflects continuing appropriations for retirement contributions.

General Funds revenues total \$12,525 million; increasing slightly over the fiscal year 2010 second quarter level of \$11,779 million. The State's economic condition is slowly beginning to show signs of stability. Transfers from other funds to the general funds increased \$433 million over the previous year, as detailed in the Revenue Summary.

Fiscal year 2011 second quarter General Funds YTD expenditures totaled \$11,938 million; \$113 million below second quarter fiscal year 2010. Further explanation of the expenditures is provided in the Expenditures Summary.

nb. Tables in this report may not add due to rounding.

GENERAL FUNDS REVENUE SUMMARY

General Funds Revenues, including Transfers In and Federal Revenues, excluding short-term borrowing and Tobacco Securitization proceeds, for the second quarter of fiscal year 2011 increased by \$1,179 million largely due to receipts from the tax amnesty program and inter-fund borrowing. As detailed below, the major revenue sources for the State are stabilizing.

Table II
GENERAL FUNDS REVENUES
Second Quarter
FY2010 vs. FY2011

(in millions)

Source	Year to Date Actual				Year to Date Budget				Budgeted
	FY10	FY11	YTD Difference		FY11	FY11	Variance		FY11
	YTD	YTD	Amount	%	YTD Budget	YTD Actual	Amount	%	Total Budget
Gross Individual Income Tax ¹	4,214	4,307	93	2.2%	4,056	4,307	251	6.2%	9,625
Less: Deposits to Income Tax Refund Fund	(410)	(374)	36	-8.8%	(383)	(374)	9	-2.4%	(909)
Net Individual Income Tax	3,804	3,933	129	3.4%	3,673	3,933	260	7.1%	8,716
Gross Corporate Income ¹	622	865	243	39.1%	720	865	145	20.2%	1,900
Less: Deposits to Income Tax Refund Fund	(109)	(117)	(8)	7.3%	(78)	(117)	(39)	50.6%	(205)
Net Corporate Income Tax	513	748	236	46.0%	642	748	106	16.5%	1,695
Sales¹	3,185	3,453	267	8.4%	3,305	3,453	148	4.5%	6,385
Public Utility	517	540	23	4.5%	542	540	(2)	-0.4%	1,144
Cigarette	175	177	2	1.1%	175	177	2	1.4%	350
Inheritance	116	113	(3)	-2.8%	29	113	84	290.1%	56
Liquor	76	82	6	7.3%	82	82	(1)	-0.7%	161
Insurance	157	144	(13)	-8.0%	155	144	(11)	-7.1%	350
Corporate Franchise	107	112	5	5.0%	105	112	7	6.6%	205
Investment Income	15	17	1	9.6%	17	17	(1)	-4.4%	35
Cook County IGT	56	56	0	0.1%	60	56	(4)	-6.2%	243
Other	198	185	(13)	-6.6%	161	185	23	14.5%	372
TOTAL, STATE REVENUES	8,919	9,560	641	7.2%	8,947	9,560	613	6.8%	19,712
Federal Revenues	2,860	2,965	106	3.7%	2,927	2,965	39	1.3%	6,227
Transfers In:	932	1,365	432	46.4%	805	1,365	560	69.6%	1,716
Lottery	294	297	3	1.1%	297	297	(0)	0.0%	636
Gaming/Gaming Taxes	242	188	(55)	-22.5%	243	188	(56)	-23.0%	428
Other	397	880	484	121.9%	264	880	616	233.2%	652
TOTAL RECEIPTS	\$ 12,711	\$ 13,890	\$ 1,179	9.3%	\$ 12,678	\$ 13,890	\$ 1,211	9.6%	\$ 27,655

¹ Revenue collections for these sources contain proceeds from the tax amnesty program in FY11.

- Income Taxes (\$365 million increase):** Individual Income tax revenues are up \$129 million, or 3.4% from prior year revenues. Of the net revenues, \$32 million is attributable to the tax amnesty program. Net of amnesty, the real growth rate is 2.5%. Corporate Income Tax net receipts increased by \$236 million, or 46.0% from the prior fiscal year. The amnesty program was the source of \$125 million of the receipts. Net of amnesty, the real growth rate is 21.6%. Net income tax receipts reflect transfers to the Income Tax Refund Fund.
- Sales Taxes (\$267 million increase):** Sales tax receipts increased \$267 million, which is an 8.4% increase over the previous year. The tax amnesty program provided \$158 million of these revenues. Net of amnesty, the real growth rate is 3.4% for FY11.

- **Inheritance Taxes (\$3 million decrease):** Inheritance tax receipts are down 2.8% from the previous year. These receipts will continue to decline sharply due to the federal estate tax law being repealed for the 2010 calendar year. Illinois' estate tax law is coupled to the federal law. Other than taxes received through payment plans, no further tax revenue is expected for the remainder of the fiscal year.
- **All Other Sources (\$11 million increase):** Liquor Gallonage increased by \$6 million or 7.3%, Insurance Tax and Fees decreased \$13 million or 8.0%. Investment Income increased by \$1 million (9.6%), Cigarette Taxes increased slightly over fiscal year 2010, Corporate Franchise Taxes and Fees increased \$5 million or 5.0%, Public Utility Taxes increased \$23 million (4.5%), and Other Sources decreased by \$13 million.
- **Federal Revenues (\$106 million increase):** Federal sources of revenue increased \$106 million or 3.7%. The stimulus revenue fell by \$160 million from \$551 million for the second quarter of fiscal year 2010 to \$391 million for the second quarter of fiscal year 2011. This decrease was offset by a pay down of Medicaid bills which received the higher federal ARRA match rate before it decreased in January 2011.
- **Transfers In (\$432 million increase):** All other transfers in increased \$432 million; primarily from inter-fund borrowing which has generated \$354 million as of December 31, 2010, as well as an additional \$112 million over the prior year from the Capital Projects Fund.

GENERAL FUNDS EXPENDITURES SUMMARY

Table III details General Funds expenditures for the second quarter of fiscal year 2011. General Funds expenditures for the second quarter totaled \$13,854 million, an increase of \$93 million (0.7%) from the previous year.

Table III
GENERAL FUNDS EXPENDITURES
Second Quarter
FY2010 vs FY2011
(in millions)

	<u>FY2010</u>	<u>FY2011</u>	<u>Change</u>
Enacted Appropriation	\$ 26,357	\$ 25,814	\$ (543)
Expenditures	\$ 12,051	\$ 11,938	\$ (113)
Pension Contributions ¹	\$ 1,710	\$ 1,916	\$ 206
Total Expend YTD	\$ 13,761	\$ 13,854	\$ 93
Percent Spent	46%	46%	0%

¹ Reflects continuing appropriations for retirement contributions.

Agencies have been instructed to implement spending reductions to help manage the current fiscal crisis. Agency specific pressures are partially due to timing differences in the submission of vouchers and growth in mandated costs. The FY10 pension contributions were repaid through a Pension Obligation Note offering that took place in January 2010. As of December 31, 2010, no action has been taken in regards to funding the FY11 pension contributions.

FINANCIAL POSITION

The General Funds cash balance at December 31, 2010 was \$187 million. This is a \$37 million increase (24.7%) from the December 31, 2009 level of \$150 million.

As of December 31, 2010, accounts payable increased \$201 million (4.0%) over the previous fiscal year. There was a large reduction in FY11 payables in December 2010, which were paid through proceeds from the Tobacco Settlement Bond sale.

Table IV
FINANCIAL POSITION
Second Quarter
FY2010 vs. FY2011
(in millions)

	<u>FY10</u>	<u>FY11</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (9/30)	\$ 207	\$ 166	\$ (41)
Change in Operating Cash for 2nd Qtr	(1,583)	(1,514)	69
Short-term Borrowing Proceeds	1,250	1,300	50
Transfer In from Budget Stabilization Fund	276	235	(41)
General Funds Cash Balance (12/31)	\$ 150	\$ 187	\$ 37
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (12/31)	\$ 5,037	\$ 5,238	\$ 201
Total Select Current Liabilities	\$ 5,037	\$ 5,238	\$ 201
NET WORKING CAPITAL (GF cash less GF A/P)	\$ (4,887)	\$ (5,051)	\$ (164)

EMPLOYMENT HIGHLIGHTS

As noted in Table V, the December 31, 2010 Illinois unemployment rate of 9.3% is a significant decrease from the prior fiscal year, and is lower than the national rate. This translates to 200,900 more people employed in the second quarter of fiscal year 2011 than the same period in fiscal year 2010. According to the Illinois Department of Employment Security, September is the ninth month in a row that the Illinois unemployment rate has fallen. Nationally, the December unemployment rate was 9.4%, down from 9.9% in the second quarter of fiscal year 2010.

Table V
EMPLOYMENT HIGHLIGHTS
Second Quarter
FY2010 vs. FY2011

STATEWIDE EMPLOYMENT STATISTICS	<u>12/31/09</u>	<u>12/31/10</u>	<u>Change</u>
Labor Force	6,591,300	6,687,500	96,200
Employed	5,866,000	6,066,900	200,900
Unemployed	725,300	620,600	(104,700)
Illinois Unemployed Rate	11.0%	9.3%	-1.7%
US Unemployed Rate	9.9%	9.4%	-0.5%

Source: Illinois Dept. of Employment Security