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GOVERNOR'S OFFICE OF
MANAGEMENT AND BUDGET

FISCAL YEAR 2011 THIRD QUARTER FINANCIAL REVIEW (CASH BASIS)

GENERAL FUNDS HIGHLIGHTS

Fiscal year 2011 third quarter General Funds highlights, shown below, reflects a net operating YTD deficit of \$371 million.

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

	YTD			
	<u>FY10</u>	<u>FY11</u>	<u>\$ Change</u>	<u>% Change</u>
General Funds Revenues	\$ 18,857	\$ 19,817	\$ 961	5%
Transfers In ¹	1,270	1,934	664	52%
Total Receipts	20,127	21,751	1,625	8%
General Funds Expenditures ²	18,946	18,678	(268)	-1%
Transfers Out ¹	2,360	3,444	1,084	46%
Total Spending	21,306	22,122	816	4%
Net Operating Surplus/(Deficit)	\$ (1,179)	\$ (371)	\$ 809	-69%

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

Includes inter-fund borrowing

² FY10 and FY11 Expenditures exclude retirement continuing appropriation spending. This spending was reimbursed through proceeds from the Pension Obligation Note offering.

General Funds revenues total \$19,817 million; increasing over the fiscal year 2010 third quarter level of \$18,857 million. The State's economic condition is slowly beginning to show signs of stability. Transfers from other funds to the general funds increased \$664 million over the previous year, as detailed in the Revenue Summary.

Fiscal year 2011 third quarter General Funds YTD expenditures totaled \$18,678 million; \$268 million below third 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 third quarter of fiscal year 2011 increased by \$1,625 million largely due to receipts from the tax amnesty program, the income tax increase and inter-fund borrowing. As detailed below, the major revenue sources for the State are stabilizing.

Table II
GENERAL FUNDS REVENUES
Third Quarter
FY2010 vs. FY2011

(in millions)

Source	Year to Date Actual				Year to Date Budget				Budgeted
	FY10 YTD	FY11 YTD	YTD Difference		FY11 YTD Budget	FY11 YTD Actual	Variance		FY11 Total Budget
			Amount	%			Amount	%	
Gross Individual Income Tax ¹	6,723	7,808	1,085	16.1%	8,669	7,808	(861)	-9.9%	12,565
Less: Deposits to Income Tax Refund Fund	(652)	(680)	(28)	4.3%	(758)	(680)	78	-10.3%	(1,099)
Net Individual Income Tax	6,071	7,128	1,057	17.4%	7,911	7,128	(783)	-9.9%	11,466
Gross Corporate Income ¹	1,056	1,301	245	23.2%	1,399	1,301	(98)	-7.0%	2,285
Less: Deposits to Income Tax Refund Fund	(185)	(190)	(5)	2.7%	(245)	(190)	55	-22.4%	(400)
Net Corporate Income Tax	871	1,111	240	27.5%	1,154	1,111	(43)	-3.7%	1,885
Sales ¹	4,664	5,078	414	8.9%	4,913	5,078	165	3.4%	6,514
Public Utility	830	859	29	3.5%	832	859	26	3.2%	1,101
Cigarette	263	266	3	1.1%	266	266	(0)	0.0%	355
Inheritance	167	118	(49)	-29.3%	99	118	19	19.3%	132
Liquor	120	119	(1)	-1.1%	122	119	(3)	-2.6%	161
Insurance	204	200	(4)	-1.8%	206	200	(6)	-3.0%	319
Corporate Franchise	157	162	5	3.3%	154	162	8	5.5%	205
Investment Income	21	25	5	22.6%	18	25	7	39.0%	25
Cook County IGT	150	150	0	0.0%	150	150	(0)	-0.1%	244
Other	314	320	6	1.9%	264	320	56	21.1%	392
TOTAL, STATE REVENUES	13,830	15,535	1,705	12.3%	16,089	15,535	(554)	-3.4%	22,799
Federal Revenues	5,027	4,282	(745)	-14.8%	3,955	4,282	327	8.3%	5,506
Transfers In:	1,270	1,934	664	52.3%	1,437	1,934	497	34.6%	2,308
Lottery	440	445	5	1.1%	456	445	(11)	-2.4%	632
Gaming/Gaming Taxes	288	259	(29)	-10.1%	244	259	15	6.1%	338
Other ²	542	1,230	689	127.2%	737	1,230	493	67.0%	1,338
TOTAL RECEIPTS	\$ 20,127	\$ 21,751	\$ 1,625	8.1%	\$ 21,480	\$ 21,751	\$ 271	1.3%	\$ 30,613

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

² Excludes transfers in from the Pension Obligation Note offering of \$843M recognized by IOC in January 2010 and \$224M recognized by IOC in March 2011.

- Income Taxes (\$1,297 million increase):** Effective January 1, 2011, P.A. 96-1496 increased the Individual Income Tax rate from 3% to 5% and the Corporate Income Tax rate from 4.8% to 7%. Individual Income tax revenues are up \$1,057 million, or 17.4% from prior year revenues. Of the net revenues, \$33 million is attributable to the tax amnesty program. Net of amnesty, the real growth rate is 16.9%. Corporate Income Tax net receipts increased by \$240 million, or 27.5% from the prior fiscal year. The amnesty program was the source of \$136 million of the receipts. Net of amnesty, the real growth rate is 11.9%. Net income tax receipts reflect transfers to the Income Tax Refund Fund.
- Sales Taxes (\$414 million increase):** Sales tax receipts increased \$414 million, which is an 8.9% increase over the previous year. The tax amnesty program provided \$164 million of these revenues. Net of amnesty, the real growth rate is 5.4% for FY11.

- **Inheritance Taxes (\$49 million decrease):** Inheritance tax receipts are down 29.3% 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 was 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 (\$43 million increase):** Liquor Gallonage decreased by \$1 million or 1.1%, Insurance Tax and Fees decreased \$4 million or 1.8%. Investment Income increased by \$5 million (22.6%), Cigarette Taxes increased slightly over fiscal year 2010, Corporate Franchise Taxes and Fees increased \$5 million or 3.3%, Public Utility Taxes increased \$29 million (3.5%), and Other Sources increased by \$6 million.
- **Federal Revenues (\$745 million decrease):** Federal sources of revenue decreased \$745 million or 14.8%. The stimulus revenue fell by \$938 million from \$1,459 million for the third quarter of fiscal year 2010 to \$521 million for the third quarter of fiscal year 2011. Medicaid bills continue to receive the higher federal ARRA match rate for certain payments made within 30 days. This lessened the effect of the decrease in stimulus revenue.
- **Transfers In (\$664 million increase):** All other transfers in increased \$664 million; primarily from inter-fund borrowing which has generated \$496 million as of March 31, 2011, as well as an additional \$94 million over the prior year from the Capital Projects Fund.

GENERAL FUNDS EXPENDITURES SUMMARY

Table III details General Funds expenditures for the third quarter of fiscal year 2011. General Funds expenditures for the third quarter totaled \$18,678 million, a decrease of \$268 million (1.4%) from the previous year.

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

	<u>FY2010</u>	<u>FY2011</u>	<u>Change</u>
Enacted Appropriation	\$ 26,357	\$ 25,814	\$ (543)
Total Expend YTD ¹	\$ 18,946	\$ 18,678	\$ (268)
Percent Spent	72%	72%	0%

¹FY10 and FY11 Expend YTD excludes retirement continuing appropriation spending. This spending was reimbursed through the Pension Obligation Note offering.

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 paid through a Pension Obligation Note offering that took place in January 2010. The FY11 pension contributions were paid through a Pension Obligation Note offering that took place in March 2011.

FINANCIAL POSITION

The General Funds cash balance at March 31, 2011 was \$130 million. This is a \$232 million decrease (64.1%) from the March 31, 2010 level of \$362 million.

As of March 31, 2011, accounts payable totaled \$4,515 million, an increase of \$19 million (0.4%) over the previous fiscal year.

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

	<u>FY10</u>	<u>FY11</u>	<u>Change</u>
CASH BALANCE			
General Funds Cash Balance (12/31)	\$ 150	\$ 187	\$ 37
Change in Operating Cash for 3rd Qtr	(1,314)	(1,592)	(278)
Short-term Borrowing Proceeds	1,250	1,300	50
Transfer In from Budget Stabilization Fund	276	235	(41)
General Funds Cash Balance (3/31)¹	\$ 362	\$ 130	\$ (232)
SELECT CURRENT LIABILITIES			
General Funds Accounts Payable (3/31)	\$ 4,496	\$ 4,515	\$ 19
Total Select Current Liabilities	\$ 4,496	\$ 4,515	\$ 19
NET WORKING CAPITAL (GF cash less GF A/P)	\$ (4,134)	\$ (4,385)	\$ (251)

¹A high cash balance on 3/31/10 in the Common School Clearing Fund that did not exist on 3/31/11 accounts for the difference in cash.

EMPLOYMENT HIGHLIGHTS

As noted in Table V, the March 31, 2011 Illinois unemployment rate of 8.8% is a significant decrease from the prior fiscal year, and is the same as the national rate. This translates to 101,600 more people employed in the third quarter of fiscal year 2011 than the same period in fiscal year 2010. According to the Illinois Department of Employment Security, March is the fourteenth month in a row that the Illinois unemployment rate has fallen. Nationally, the March unemployment rate was 8.8%, down from 9.7% in the third quarter of fiscal year 2010.

Table V
EMPLOYMENT HIGHLIGHTS
Third Quarter
FY2010 vs. FY2011

STATEWIDE EMPLOYMENT STATISTICS	<u>3/31/10</u>	<u>3/31/11</u>	<u>Change</u>
Labor Force	6,647,400	6,602,800	(44,600)
Employed	5,919,100	6,020,700	101,600
Unemployed	728,300	582,100	(146,200)
Illinois Unemployed Rate	11.0%	8.8%	-2.2%
US Unemployed Rate	9.7%	8.8%	-0.9%

Source: Illinois Dept. of Employment Security