

STATE OF ILLINOIS  
COMPTROLLER  

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LESLIE GEISSLER MUNGER

# EXECUTIVE SUMMARY

**ILLINOIS**  
FISCAL YEAR ENDED JUNE 30, 2014

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STATE OF ILLINOIS  
COMPTROLLER  
LESLIE GEISSLER MUNGER



March 2015

## *A Message to Illinois Taxpayers*

I am pleased to provide this *Executive Summary*, a companion piece to Illinois' *Comprehensive Annual Financial Report*, with useful and understandable information about the fiscal condition of the State of Illinois. This report, also known by the financial community as Illinois' popular annual financial report, is compiled to enhance public understanding of the state's financial statements.

This summary combines information from the state's *Comprehensive Annual Financial Report* prepared in accordance with Generally Accepted Accounting Principles (GAAP) for government, and cash basis budgetary information contained in the *Traditional Budgetary Financial Report*. Both of those reports can be accessed at our website, [www.illinoiscomptroller.com](http://www.illinoiscomptroller.com), or by calling (217) 782-6000 or (312) 814-2451.

Under the GAAP reporting system, revenues accrue to the period in which they are earned and expenditures are counted against the period in which the liability was obligated. Under the cash basis reporting system, revenues and expenditures are compared for the budgetary period regardless of when they were incurred. The State of Illinois budgets on a cash basis.

In this *Executive Summary*, as in past reports, we review the economic and fiscal climate in which future budgets will be considered. It is valuable for policy-makers to understand these issues in order to make informed decisions. It is also a useful resource for taxpayers to measure the effectiveness of governmental programs.

The fiscal year 2014 report notes that Illinois' cash position improved as the budgetary deficit decreased by \$57 million from a deficit of \$3.988 billion to a deficit of \$3.931 billion. The General Fund GAAP balance also improved. The state ended fiscal year 2014 with a negative General Fund balance of \$6.678 billion, indicating that the state's GAAP deficit decreased by \$656 million compared to the prior year. Section 25 liabilities – essentially fiscal year 2014 medical bills paid for with fiscal year 2015 appropriations – fell this year, totaling \$2.051 billion as of June 30, 2014.

I hope you find this report to be informative and useful. Please share with us any suggestions or comments you have about this report and its contents.

Sincerely,

Leslie Geissler Munger  
State Comptroller





Government Finance Officers Association

**Award for  
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Presented to

**State of Illinois**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



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## BUDGETARY BASIS

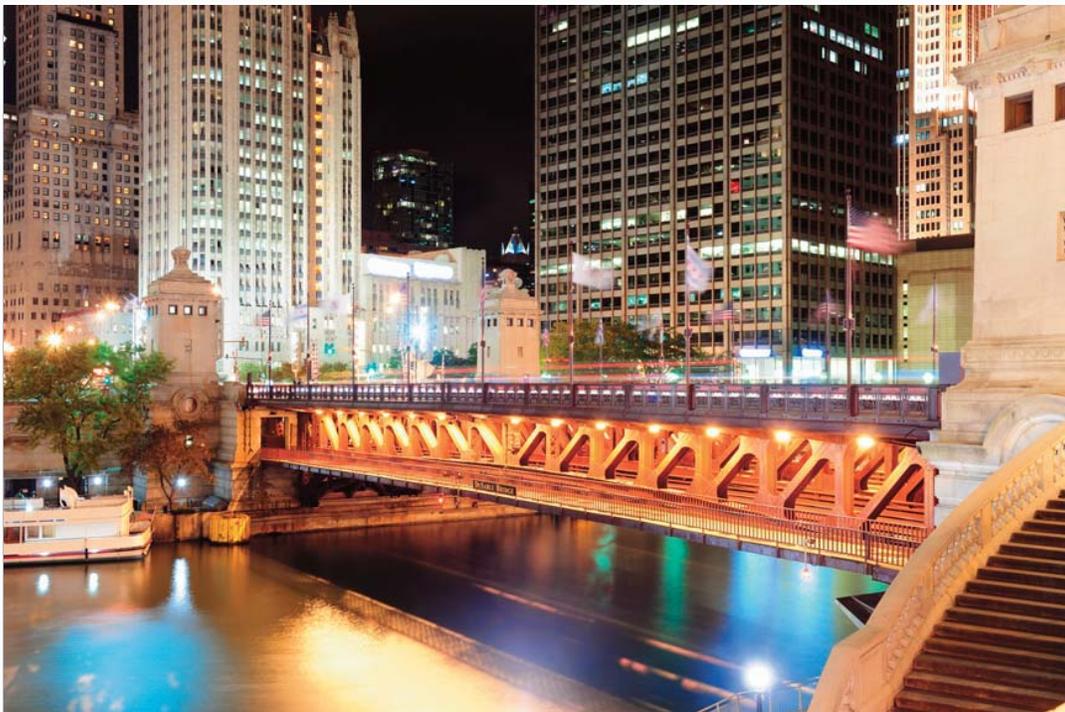
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Giant City State Park, Makanda, Illinois



Michigan Avenue Bridge, Chicago, Illinois

# STATE GOVERNMENT BACKGROUND

Geographically located in the central portion of the United States, Illinois is a diverse state that covers over 56,000 square miles of land. Many of Illinois' approximately 12.9 million inhabitants live in urban areas, although there is a strong rural presence in the state as well. Nearly one-fourth or approximately 2.7 million of the state's residents live in Chicago, the third largest city in the country. Seven other municipalities including Aurora, Elgin, Rockford, Naperville, Joliet, Peoria, and the state's capital of Springfield have populations in excess of 100,000 with another 21 municipalities' populations estimated to be in excess of 50,000.

The framework of government for Illinois and its 12.9 million residents is set forth by the Constitution. Since joining the Union in 1818, Illinois government has evolved through four Constitutions. The current Constitution, adopted and ratified in 1970, recognized three main branches of state government. The executive branch has six elected officers: a Governor, Lieutenant Governor, Attorney General, Secretary of State, Comptroller, and Treasurer. The legislative branch includes two chambers, a Senate with one senator from each of the 59 Senate districts, and a House of Representatives with one representative from each of the 118 House districts. The judicial branch consists of a seven-member Supreme Court, Appellate Courts in five judicial districts and Circuit Courts in twenty-four judicial circuits.

Responsibility for most of the day-to-day operations of state government and its programs resides in the executive branch, with the Governor overseeing the largest portion. Under the purview of the Governor there were twenty-two major departments in fiscal year 2014 including Human Services, Transportation, Healthcare and Family Services, and Revenue. There are also numerous other smaller agencies, and over one hundred miscellaneous boards and commissions under the jurisdiction of the Governor. In addition, the other five elected officers under the executive branch oversee their respective agencies. State government agencies combined directly employed a total of 64,055 persons at the end of fiscal year 2014, 1,219 more than one year earlier. The Departments of Corrections (12,000), Human Services (12,897), Transportation (5,648), and the Secretary of State (4,140) accounted for just over half (54.1%) of all direct government employees.

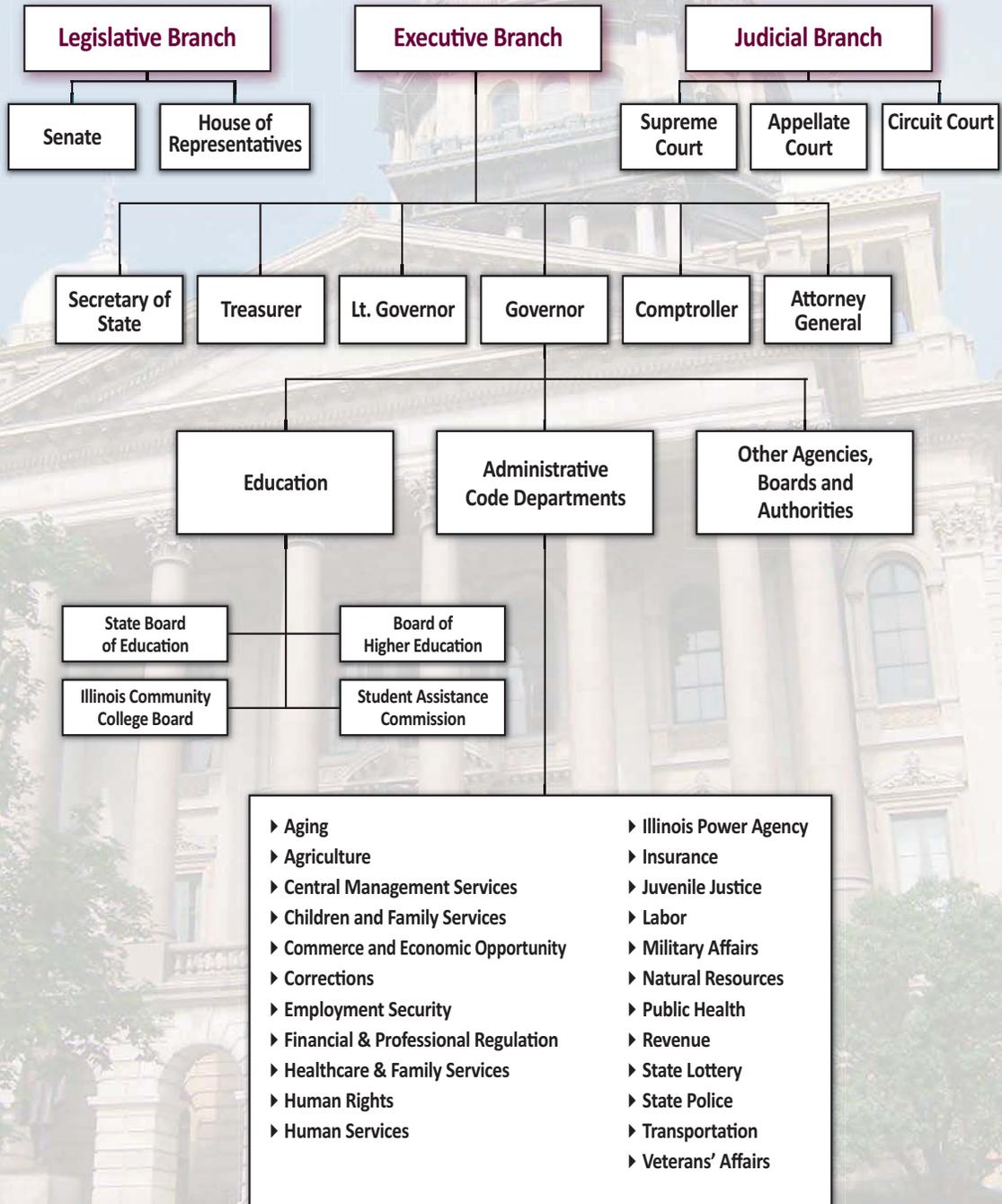
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 863 school districts and nearly 3,800 schools. In fiscal year 2014, over 2.0 million public school children were instructed by over 130,000 full-time, certified teachers throughout Illinois.

The 16-member Board of Higher Education plans and coordinates higher education policy for all sectors of Illinois Higher Education. Administration of Illinois' public universities and community colleges is conducted by ten boards including: the Boards of Trustees of the University of Illinois, Southern Illinois University, Chicago State University, Eastern Illinois University, Governors State University, Illinois State University, Northeastern Illinois University, Northern Illinois University, Western Illinois University, and the Community College Board. During the 2014 fiscal year, approximately 550,000 students were enrolled in Illinois' public colleges and universities, and thousands more were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. At the end of fiscal year 2014, the count of enrolled individuals for which the Department of Healthcare and Family Services provided comprehensive means-tested medical coverage was approximately 3.0 million. The Department of Transportation administers the state's highway program through nine district offices and is responsible for approximately 16,000 highway miles.

Total expenditures for governmental funds (on the modified accrual basis of accounting) for these major programs and all other operations of state government in fiscal year 2014 were \$66.9 billion or approximately \$5,180 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$65.0 billion for the governmental funds with income taxes (\$20.9 billion), federal revenues (\$20.6 billion), and sales taxes (\$10.6 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$27.0 billion), and Education (\$17.4 billion). ■

# ELECTORATE



The recovery from the recession continued in Illinois in fiscal year 2014, albeit at a modest pace. The employment measures of Illinois economic activity showed signs of improvement during the fiscal year, as did Illinoisans' personal income. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.813 million workers in fiscal year 2014, an increase of 38,000 jobs or 0.7% above 2013 employment, but still 232,000 jobs or 3.8% below peak employment of 6.045 million jobs in fiscal 2001. A second Illinois employment estimate, obtained through household surveys, also showed an increase in Illinois employment. According to these surveys, on average 5.992 million Illinoisans were employed in fiscal year 2014, up 22,000, or 0.4%, from the prior year employment level.

The average Illinois unemployment rate decreased from 9.4% in fiscal year 2012 to 9.1% in fiscal year 2013 and then to 8.4% in fiscal year 2014. The decreased unemployment rate was caused by the increase in employment levels and the decline in the average number of unemployed from 598 thousand in fiscal year 2013 to 553 thousand in fiscal year 2014. Illinois' average unemployment rate in fiscal year 2013 was still notably higher than the 4.6% average rate for fiscal year 2007.

The manufacturing sector contracted slightly in fiscal year 2014. Average manufacturing employment of 575,100 jobs was down 8,000 jobs from the prior year. Manufacturing employment was still down 331,500 jobs or 36.6% from the most recent peak manufacturing employment of 906,600 jobs during fiscal year 1998.

A fairly comprehensive measure of Illinois' economic performance is the change in state personal income adjusted for inflation. This value increased 0.6% in fiscal year 2014 as nominal personal income rose 2.1% following modest employment growth and the consumer price index was up 1.6%. State personal income adjusted for inflation had increased 2.0% in fiscal year 2013.

## **Fiscal Year 2015 and Beyond**

The first half of fiscal year 2015 has seen a continuation of economic growth in Illinois. The average Illinois unemployment rate was 6.3% for the first half year of the fiscal year, and employment as measured through the household survey was up 158,000, or 2.6%, from its prior year level. The payroll employment data continued to show

improvement with employment edging up 43,500 or 0.7% from its prior year level. Economic growth is expected to continue at a moderate pace in the remainder of fiscal year 2015.

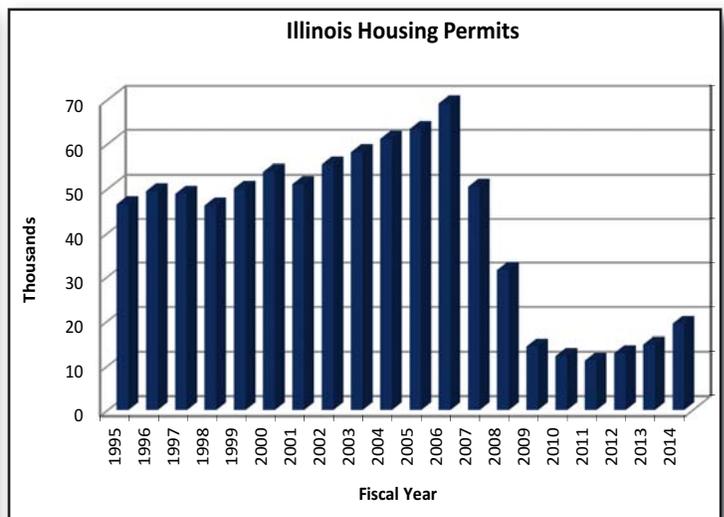
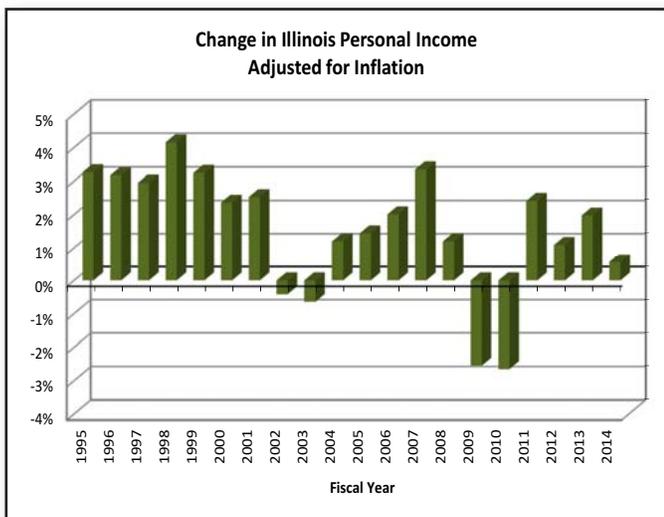
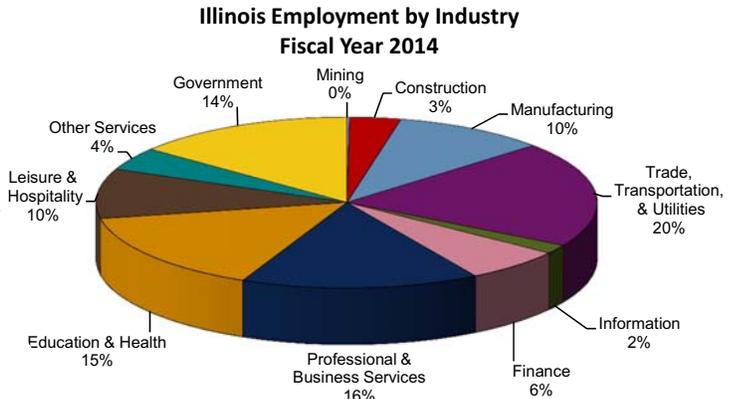
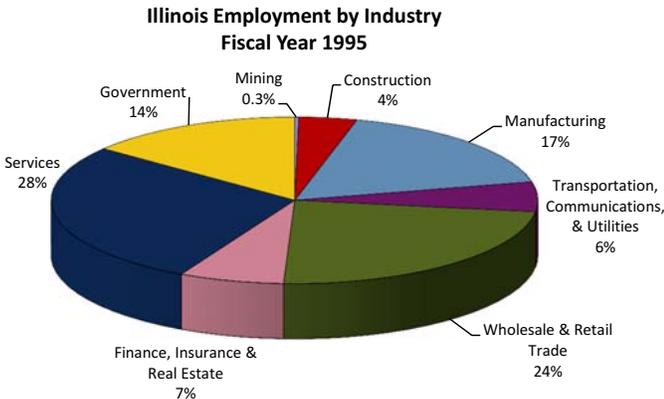
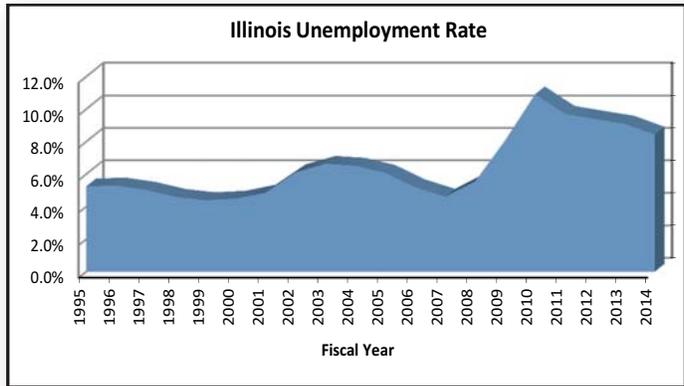
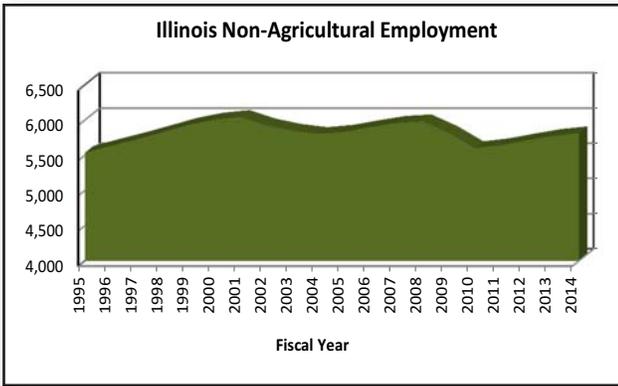
In working to restore its economy to economic health, Illinois can take advantage of its many strengths. Home to 33 of the Fortune 500 companies in 2014, Illinois is the business and financial center of the Midwest. Illinois is tightly integrated into the international economy. With exports of \$66 billion in calendar year 2013, Illinois ranked 5th highest among the states including a Top 5 ranking for agricultural exports. To thrive in such a competitive climate, Illinois is maintaining superior transportation and communication infrastructures, providing educational and training opportunities to support a skilled and adaptable labor force, and fostering businesses that create and transfer new technologies into the workplace.

Chicago is the transportation crossroads of the United States. It is home to O'Hare Airport which was again ranked as one of the World's Busiest Airports in 2013 as well as being the hub for the national rail and highway networks. Through expanding private networks and the state initiatives such as the Illinois Century Network which links educational institutions throughout the state, Illinois is creating an environment where high quality information links are universally available for educational, job training, commercial, and industrial purposes.

Illinois' educational resources include private universities such as the University of Chicago and Northwestern University as well as the twelve-campus public system. In fiscal year 2014, Illinois private institutions served thousands of students with another 194,000 served by the public universities. A statewide system of community colleges (352,000 students) and other training resources provide many additional educational opportunities.

Associated with these education institutions are important scientific research centers, such as the Argonne National Laboratory, the Fermi National Accelerator Lab, and the National Center for Supercomputing Applications at the University of Illinois. In addition, Illinois based corporations operate major labs in electronics, mechanical engineering and the biosciences and Illinois based venture capital firms specialize in identifying and financing promising innovations from these labs. ■

# YEAR-END ECONOMIC SUMMARY

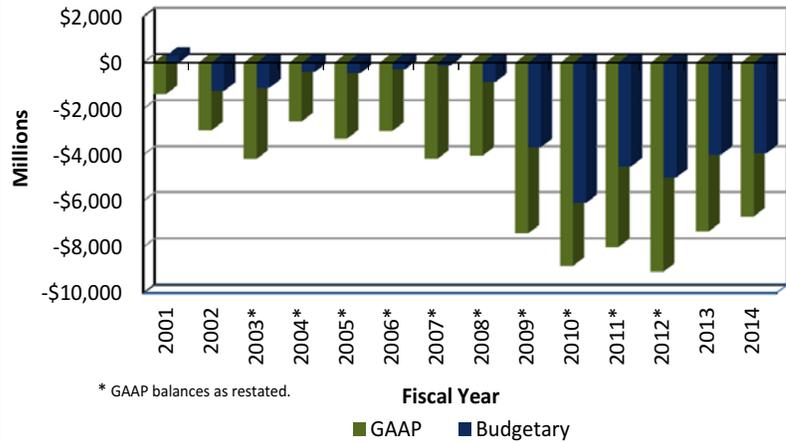


# YEAR-END FISCAL SUMMARY

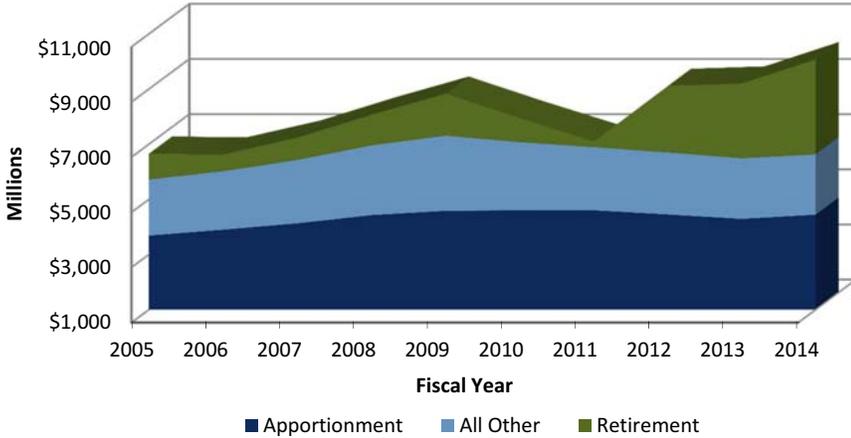
## Fiscal Activity General Funds Budgetary Cash Basis

(in millions)	FY 2013	FY 2014	Change
Beginning Cash			
Balance	\$ 40	\$ 154	\$ 114
Revenues	\$ 36,603	\$ 37,043	\$ 440
Expenditures	\$ 36,489	\$ 37,123	\$ 634
Ending Cash			
Balance	\$ 154	\$ 74	\$ (80)
Lapse Period			
Transactions	\$ 4,142	\$ 4,005	\$ (137)
Budgetary			
Balance	\$ (3,988)	\$ (3,931)	\$ 57

## General Funds Group GAAP and Budgetary Balances



## Elementary and Secondary Education Grant Spending General Funds



## Major Unfunded and Long Term Liabilities

(in millions)	FY 2013	FY 2014
Net Pension Obligation	\$ 27,904	\$ 29,276
General Obligation Bonds	\$ 27,055	\$ 29,019
Build Illinois and Civic Center Bonds	\$ 2,896	\$ 3,064
Illinois Railsplitter Authority Bonds	\$ 1,381	\$ 1,310
Net Other Post-Employment Benefit Obligation	\$ 9,053	\$ 10,492

## G.O. Bond Rating

Moody's	A3
S&P	A-
Fitch	A-
(as of March 2015)	

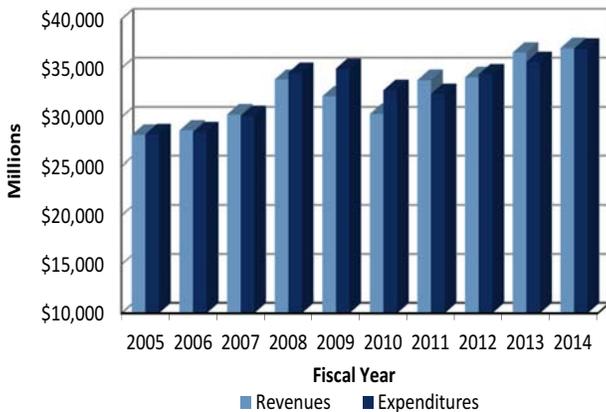
## Section 25 Liabilities

(in millions)	6/30/13	6/30/14	Change
Liabilities	\$2,353	\$2,051	(\$302)

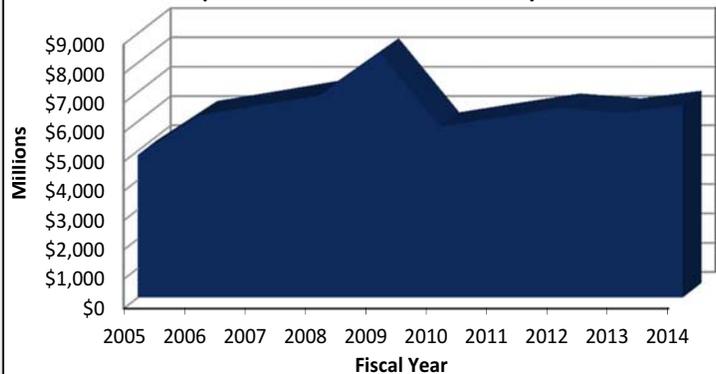
## Taxes Receivable

(in millions)	6/30/13	6/30/14	Change
Gross Balance	\$3,799	\$3,613	(\$186)
Uncollectibles	\$1,170	\$1,137	(\$33)

## Revenues and Expenditures General Funds



## Medical Assistance Grant Spending General Funds Department of Healthcare and Family Services



# FINANCIAL INFORMATION SUMMARY

The following information has been condensed from the statements included in the State of Illinois *Comprehensive Annual Financial Report* (CAFR).

## Assets and Deferred Outflows of Resources

Total assets and deferred outflows of resources of the State of Illinois at June 30, 2014, were approximately \$53.1 billion, an increase of \$1.8 billion from June 30, 2013. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised approximately \$21.5 billion (40.5%) of the state's total assets.

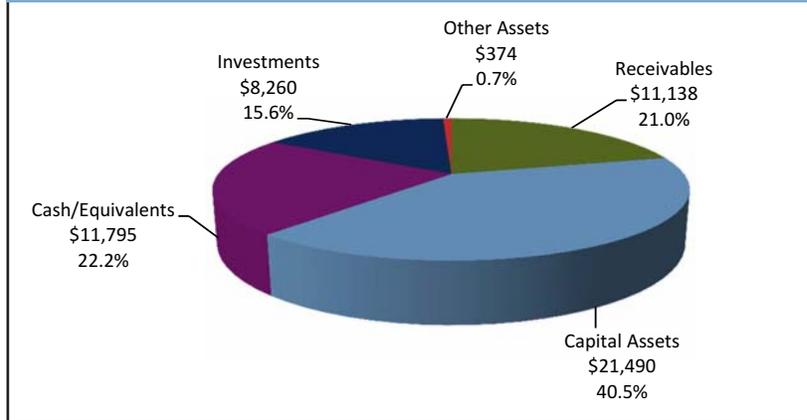
## Liabilities and Deferred Inflows of Resources

Total liabilities and deferred inflows of resources of the state were approximately \$98.4 billion at June 30, 2014, an increase of \$2.3 billion from June 30, 2013. The state's largest liability balances are the net pension obligation of \$29.3 billion (29.8%) and the general and special obligation debt liability of \$32.1 billion (32.6%).

## Net Pension Obligation

The net pension obligation at June 30, 2014, for the state's five pension trust funds was \$29.3 bil-

## Total Assets (Primary Government) June 30, 2014 Dollar Amounts in Millions

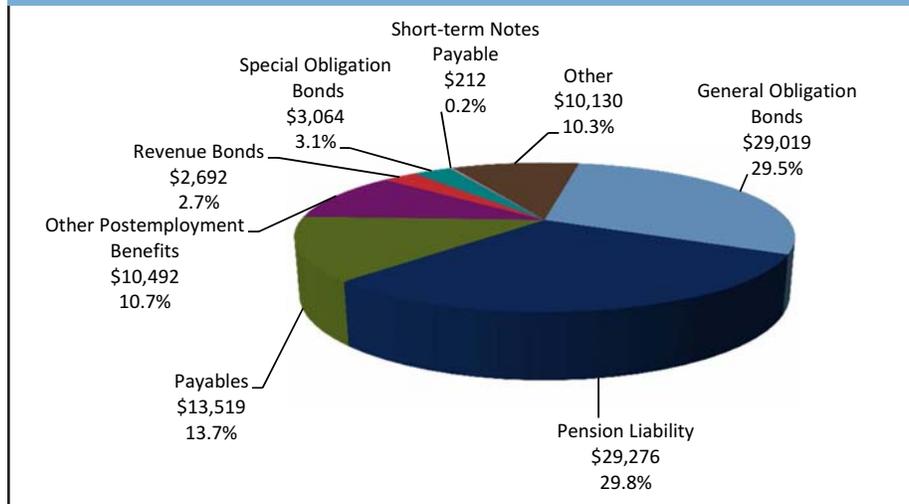


lion, an increase of approximately \$1.4 billion from June 30, 2013. The net pension obligation is the difference between the annual actuarially required contributions and the actual contributions made to the state's retirement systems. The net pension obligation and the annual pension cost compared to state contributions can be seen in the bar charts on page 7.

## Funding Policy and Annual Pension Cost

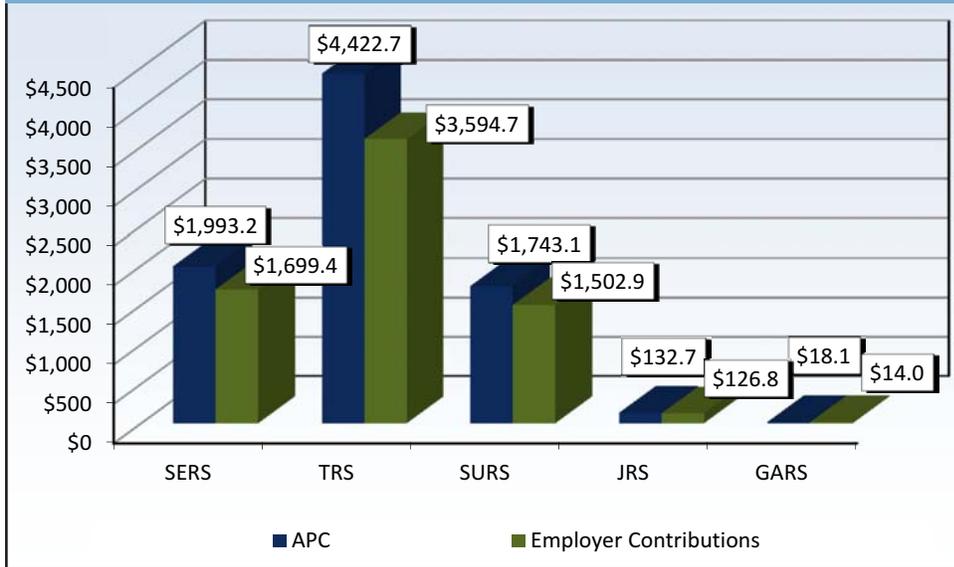
Member contributions are based on fixed percentages set by statute ranging from 4.0% to 12.5%. The state's funding requirements have been established by statute (Public Act 88-593) effective July 1, 1995, and provide for a systematic 50-year funding plan with an ultimate goal to achieve "90% funding" of the systems' liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved, absent any subsequent legislative changes. However, Public Act 94-0004 decreased

## Total Liabilities (Primary Government) June 30, 2014 Dollar Amounts in Millions



# LIABILITIES

**Annual Pension Costs (APC)  
Fiscal Year 2014  
Dollar Amounts in Millions**



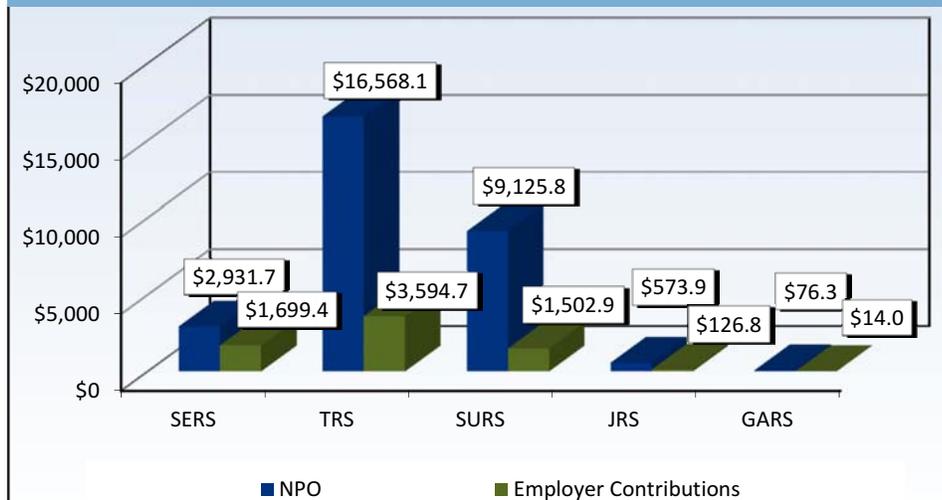
requirement established by statutory law for the fiscal year ended June 30, 2014. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly’s appropriation process. In addition, contributions to the Teachers’ Health Insurance Security Fund can reduce required contributions to Teachers’ Retirement System for school districts. This statutory funding requirement differs significantly from the annual pension cost (APC) because the statutory plan does not conform with the GASB Statement No. 27 allowable accounting parameters. The state’s APC for the current year and related information for each plan are included in the chart on this page.

the required funding levels for fiscal years 2006 and 2007 to \$938.4 million and \$1.375 billion, respectively, and required the state’s contribution to increase in equal annual increments from fiscal year 2008 to 2010 so that by fiscal year 2011, the state would be contributing at the rate otherwise required by state law.

Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal contributions. However, the State met its funding

Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal contributions. However, the State met its funding

**Net Pension Obligation (NPO)  
Fiscal Year 2014  
Dollar Amounts in Millions**



## General and Special Obligation Bonds

General obligation bonds are backed by the full faith and credit of the state and special obligation bonds are supported and repaid only by a dedicated state revenue source. Both are considered direct debt of the state. General obligation bonds, excluding refunding bonds, aggregating \$3.675 billion were issued during fiscal year 2014 at interest rates ranging from 1.00% to 5.65%. In addition, special obligation bonds, aggregating \$402 million, were issued during fiscal year 2014 at interest rates ranging from 0.30% to 4.62%. The increase in outstanding general and special obligation bonds since 1980 is shown to the right. The large increase between fiscal years 2000 and 2005 is due to the issuance of \$10 billion in general obligation bonds in 2003 to reduce the state's net pension obligation. Additional bonds were sold for pension payments in fiscal year 2010 and 2011 that contributed to the increase in the debt outstanding.

### Debt Administration

At June 30, 2014, the state's general obligation bond ratings were as follows: Moody's Investors Services—"A3 with a Negative Outlook," Standard & Poor's Corporation (S & P)—"A- with a Developing Outlook," and Fitch Ratings—"A- with a Negative Outlook." The Standard and Poor's rating had been modified from "A- with a Negative Outlook" at June 30, 2013; however, since June 30, 2014, the Standard and Poor's rating has been moved back to "A- with a Negative Outlook."

The state's special obligation – Build Illinois Bonds – ratings were A3 with a Negative Outlook from Moody's Investor Services, AAA with a Stable Outlook from Standard and Poor's, and AA+ with a Stable Outlook from Fitch Ratings as of June 30, 2014.

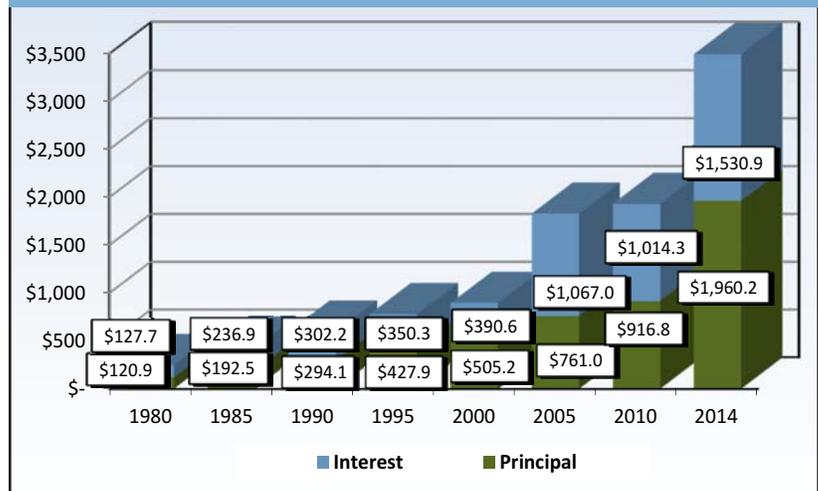
**General and Special Obligation Debt Outstanding Selected Years**  
Dollar Amounts in Billions



### Debt Service

Debt service principal and interest costs of \$1.960 billion and \$1.531 billion, respectively, were paid in fiscal year 2014 for general and special obligation bonds. The dramatic increase in debt service since fiscal year 1980, which parallels the increase in general and special obligation bonds outstanding, and most recently the sale of bonds for pension contributions, is displayed in the chart below.

**Debt Service Selected Years**  
Dollar Amounts in Millions



# GOVERNMENTAL FUND REVENUES

## NET POSITION

Net position is reported as the difference in the state's non-fiduciary assets and liabilities. When examined over time, increases or decreases in net position measure whether the state's financial position is improving or deteriorating. Illinois' net position was -\$45.3 billion at June 30, 2014. This represents a \$520 million decrease compared to the -\$44.8 billion in the previous fiscal year. The state has \$15.0 billion of net position invested in capital assets, \$9.1 billion of restricted net position, and -\$69.4 billion of unrestricted net position.

## GOVERNMENTAL FUND REVENUES

Governmental funds are funds generally used to account for tax supported activities of the state. The governmental activities within these funds are presented on the modified accrual basis of accounting, with revenues being recognized when they are both measurable and available, for the following governmental fund types: the General (which includes the general revenue account, education assistance account, common school account, and three medical services accounts); special revenue; capital projects; debt service; and permanent.\* The General fund serves as the state's primary operating fund.

Revenues from various sources for fiscal year 2014 for governmental funds are as follows.

Fiscal year 2014 governmental funds revenues increased by \$2.5 billion (4.1%) from fiscal year 2013 revenues. State-imposed taxes including income, sales, motor fuel, public utility, riverboat, hospital assessment, and miscellaneous other taxes remained the largest overall revenue source for fiscal year 2014, comprising nearly 59.8% of total governmental fund revenues, and increased \$774 million (2.0%). Federal government revenues comprise 31.7% of total governmental fund revenues.

### Income Taxes

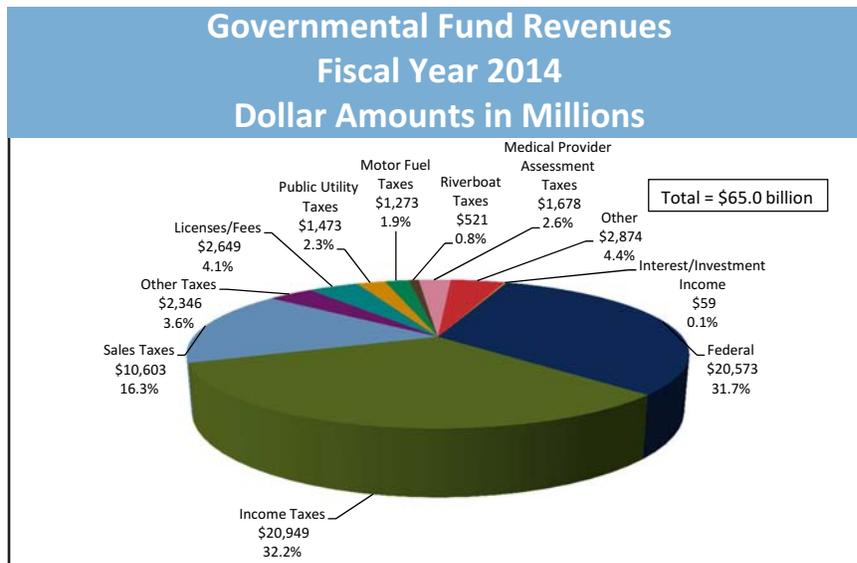
Income tax revenues for fiscal year 2014 were \$20.9 billion which is a \$146 million (0.7%) decrease from fiscal year 2013 income tax revenues of \$21.1 billion.

### Sales Taxes

Sales taxes of \$10.6 billion remained the second largest tax revenue source for fiscal year 2014. Sales taxes increased \$385 million (3.8%) from fiscal year 2013.

### Federal Government Revenues

Federal government revenues increased \$988 million (5.0%) from \$19.6 billion in fiscal year 2013 to \$20.6 billion in fiscal year 2014, and continued as the second largest overall revenue source behind income taxes for the state's governmental funds.



\*Note: The Comptroller's Office publishes a number of reports, including sections of this *Executive Summary*, that summarize the General Fund revenues and expenditures on a cash basis. These reports are available on the website at [www.illinoiscomptroller.com](http://www.illinoiscomptroller.com) or by request.

# GOVERNMENTAL ACTIVITY EXPENDITURES

## GOVERNMENTAL ACTIVITY EXPENDITURES

Expenditures for governmental activities are presented on the modified accrual basis of accounting and are generally recognized when the fund liability is incurred regardless of when payment is made except for long-term liabilities. Expenditures for long-term liabilities are recognized in the period in which the liability has matured. Governmental fund expenditures of \$66.9 billion in fiscal year 2014 increased \$3.8 billion (6.1%) from 2013 and were \$1.9 billion more than revenues on a GAAP basis.

### Health and Social Services Expenditures

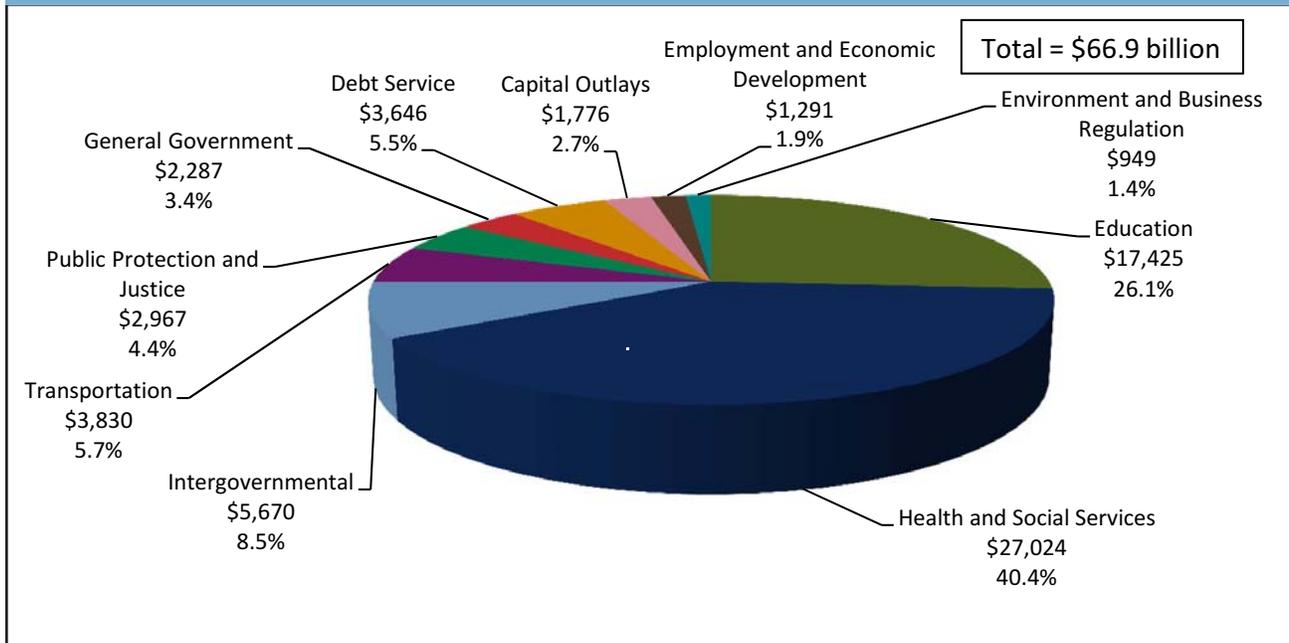
Health and social services expenditures of \$27.0 billion were the largest expenditure function for

fiscal year 2014, increasing by \$1.6 billion from fiscal year 2013. This expenditure function is 40.4% of total governmental spending. The Department of Healthcare and Family Services accounted for the majority of the increase in governmental fund spending for the state's Medicaid Program.

### Education Expenditures

Education expenditures, including spending for both elementary and secondary education and higher education, were the second largest expenditure function in the governmental funds for fiscal year 2014. Education expenditures of \$17.4 billion increased \$1.2 billion (7.6%) from fiscal year 2013 on a GAAP basis and comprise 26.1% of total governmental expenditures.

Governmental Fund Expenditures  
Fiscal Year 2014  
Dollar Amounts in Millions



GAAP BASIS

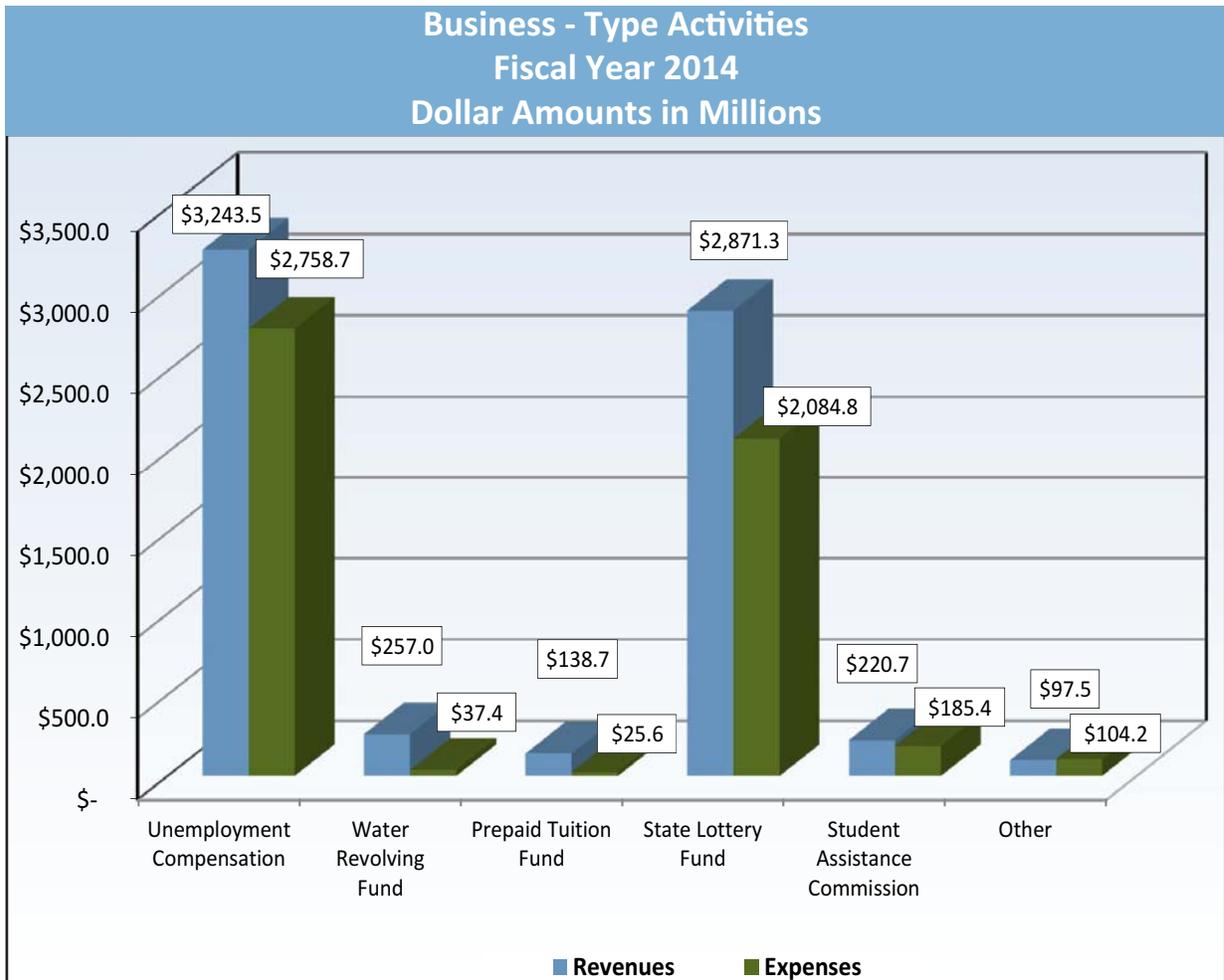
# BUSINESS-TYPE ACTIVITIES

## BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

Revenues and expenses for the state’s business-type activities are accounted for in proprietary fund types. Proprietary fund types (enterprise funds and internal service funds) are accounted for on the accrual basis. Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. Internal Service funds are used to report activities that provide goods or services to other funds of the state on a cost-reimbursement basis. Revenues and expenses of internal service funds are eliminated in the Statement of Activities.

The state’s main business-type activities are providing unemployment insurance benefit claims, lending to local governments for drinking water and wastewater infrastructure facilities (Water Revolving Fund), operating the State Lottery, and purchasing defaulted student loans (Federal Student Fund). The revenues and expenses of each of these activities are presented in the chart below.

The excess profits of the State Lottery Fund are transferred to the Common School Fund and the Capital Projects Fund. ■



## FISCAL SUMMARY

The General Funds is Illinois' largest and most important fund group. The four funds in this group – the General Revenue Fund, Education Assistance Fund, Common School Fund, and General Revenue-Common School Special Account Fund – are significant because they account for almost half of the appropriated budgetary revenues and expenditures of the state.

For fiscal year 2014, General Funds base revenues increased \$440 million to \$36.768 billion. Revenues were impacted primarily by a \$397 million transfer in from the Income Tax Refund Fund. Base expenditures increased \$1.466 billion for the year to \$36.701 billion. Spending growth was due primarily to increases in retirement contributions spending.

Fiscal year 2014 resulted in an improvement in the General Funds budgetary balance (the June 30<sup>th</sup> cash balance less amounts processed in the State's lapse period), measured on a cash basis. The balance increased from a \$3.988 billion *deficit* at the

end of fiscal year 2013 to a \$3.931 billion *deficit* this year, an improvement of \$57 million.

The state's General Fund GAAP balance increased from a \$7.334 billion deficit in fiscal year 2013, to a \$6.678 billion deficit in fiscal year 2014, an improvement of \$656 million. Fiscal year 2014 was the second year in a row of improvement to the GAAP balance and the General Funds budgetary balance.

Section 25 of the State Finance Act provides the timeline for paying the state's liabilities and allows for certain payments, primarily Medicaid and state employee health insurance bills, to be deferred and paid with the next year's appropriations. In fiscal year 2014, Illinois' Section 25 liabilities decreased from \$2.353 billion to \$2.051 billion, a drop of \$302 million. Of the total, approximately \$1.4 billion was related to deferred health insurance bills. Changes in the GAAP deficit are often tied to changes in the level of Section 25 deferrals.

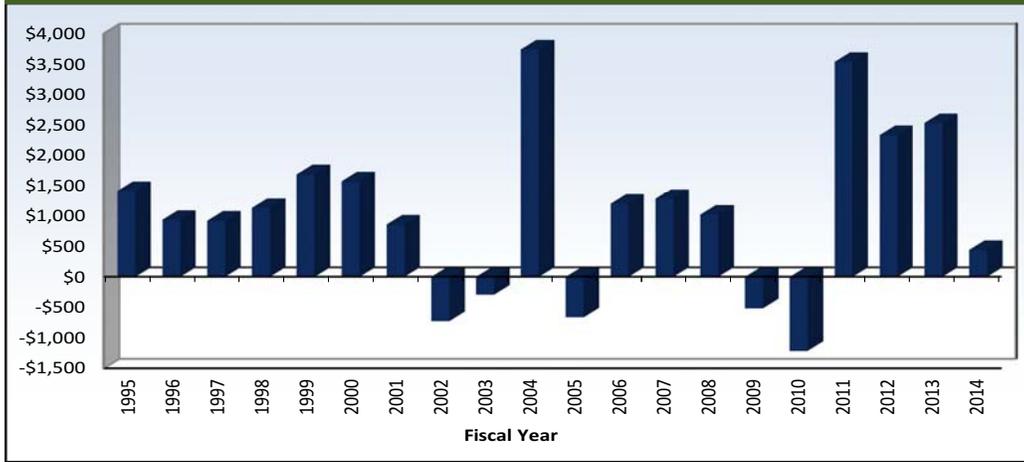
**General Funds GAAP Balance and  
Cash-Basis Budgetary Balance  
(Millions of Dollars)**

Fiscal Year	General Funds				General Revenue Fund	
	GAAP Balance	Change	Budgetary Balance	Change	Budgetary Balance	Change
2000	(572)	(269)	777	274	278	94
2001	(1,365)	(793)	300	(477)	(124)	(402)
2002	(2,948)	(1,583)	(1,220)	(1,520)	(1,470)	(1,346)
2003 *	(4,181)	(1,233)	(1,094)	126	(1,409)	61
2004 *	(2,546)	1,635	(410)	684	(569)	840
2005 *	(3,299)	(753)	(474)	(64)	(773)	(204)
2006 *	(2,970)	329	(291)	183	(802)	(29)
2007 *	(4,171)	(1,201)	(135)	156	(525)	277
2008 *	(4,035)	136	(834)	(699)	(917)	(392)
2009 *	(7,422)	(3,387)	(3,673)	(2,839)	(4,040)	(3,123)
2010 *	(8,818)	(1,396)	(6,094)	(2,421)	(6,142)	(2,102)
2011 *	(8,010)	808	(4,507)	1,587	(4,966)	1,176
2012 *	(9,078)	(1,068)	(4,984)	(477)	(4,129)	837
2013	(7,334)	1,744	(3,988)	996	(3,017)	1,112
2014	(6,678)	656	(3,931)	57	(3,295)	(278)

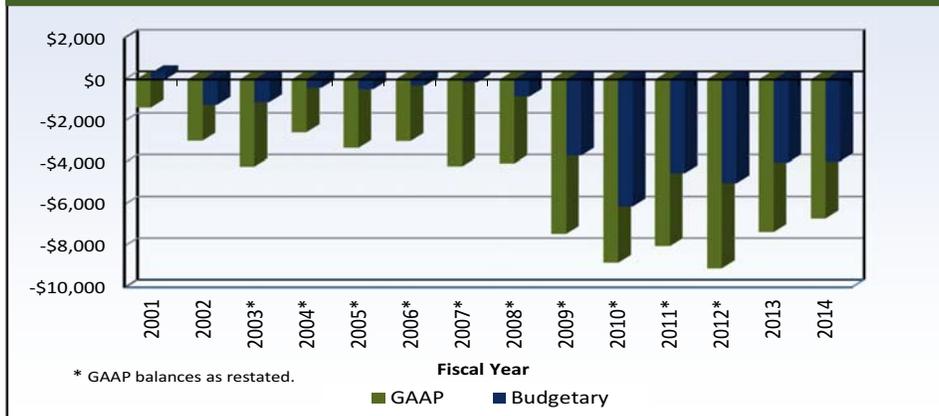
\* GAAP balance as restated.

# GENERAL FUNDS BASE REVENUE

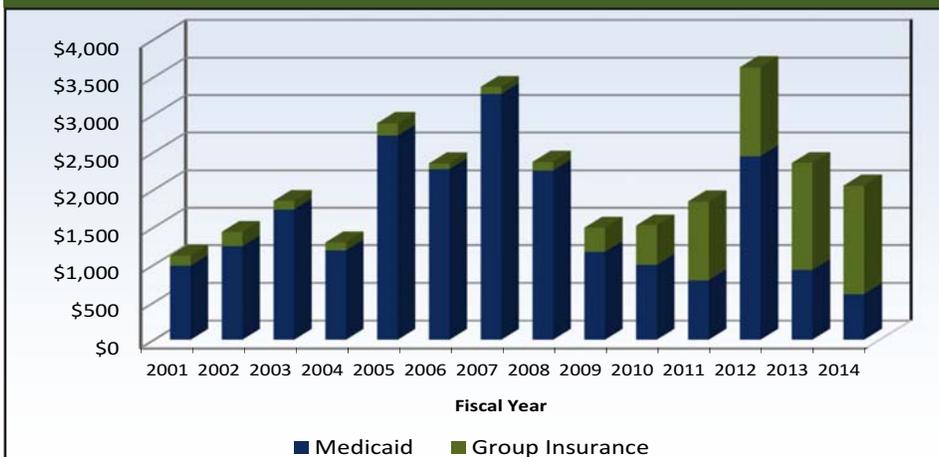
## Changes in General Funds Base Revenue Dollar Amounts in Millions



## General Funds Group GAAP and Budgetary Balances Dollar Amounts in Millions



## Section 25 Liabilities Dollar Amounts in Millions



## GENERAL FUNDS BASE REVENUE

General Funds total revenues grew \$440 million or 1.2% in fiscal year 2014, increasing to \$37.043 billion from \$36.603 billion in fiscal year 2013. Excluding the transfer of \$275 million from the Budget Stabilization Fund, base revenues increased the same amount and percent. While the economy is improving, several factors had significantly impacted the growth in base revenues.

In fiscal year 2013, there was an unexpected surge in income tax revenues as residents and businesses accelerated transactions to take advantage of the lower 2012 federal tax rates which affected fiscal year 2014's income tax receipts. In addition, there was the transfer from the Income Tax Refund Fund which exceeded expectations, and surprising revenues from court settlement proceeds and a reimbursement for an overpayment. While state revenues increased, federal revenues decreased as reimbursable General Funds Medicaid expenditures declined.

State sources increased \$691 million or 2.1% as cash receipts grew \$492 million and transfers in from other funds increased by \$199 million. Federal sources decreased \$251 million or 6.0%.

Because of the April surge in income tax revenues in the previous year, personal income taxes increased only \$104 million or 0.6% in fiscal year 2014. Over the year, employment in Illinois increased by 38,000 jobs and Illinois personal income was up 2.1%. The stock market had increased for the year. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds decreased \$13 million, or 0.4%. The decline was from the April surge last year which offset the growth in before-tax corporate profits nationally of 7.0% in fiscal year 2014.

Retail sales for the year reflected the improving economy as the processing of sales tax vehicle

General Funds Revenue (Millions of Dollars)												Change From FY2013 to FY2014	
Fiscal Year													
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Amount	Percent	
Personal Income Tax	\$ 7,979	\$ 8,635	\$ 9,408	\$ 10,320	\$ 9,223	\$ 8,511	\$ 11,225	\$ 15,512	\$ 16,538	\$ 16,642	\$ 104	0.6 %	
Corporate Income Tax	1,172	1,428	1,750	1,860	1,710	1,360	1,851	2,461	3,177	3,164	(13)	(0.4)	
Sales Taxes	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226	7,355	7,676	321	4.4	
Transfers In:													
Lottery Fund	614	670	622	657	625	625	632	640	656	668	12	1.8	
Riverboat Gaming*	542	685	685	564	430	383	324	340	345	321	(24)	(7.0)	
Other Transfers In	1,357	746	939	679	538	1,671	2,204	885	952	1,163	211	22.2	
<b>Total, Transfers In</b>	<b>2,513</b>	<b>2,101</b>	<b>2,246</b>	<b>1,900</b>	<b>1,593</b>	<b>2,679</b>	<b>3,160</b>	<b>1,865</b>	<b>1,953</b>	<b>2,152</b>	<b>199</b>	<b>10.2</b>	
Public Utility Taxes	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995	1,033	1,013	(20)	(1.9)	
Other Tax Sources	2,588	2,304	2,266	2,392	2,110	2,066	1,864	2,056	2,118	2,218	100	4.7	
<b>Base State Sources</b>	<b>\$ 21,903</b>	<b>\$ 22,634</b>	<b>\$ 23,937</b>	<b>\$ 24,844</b>	<b>\$ 22,577</b>	<b>\$ 22,013</b>	<b>\$ 26,080</b>	<b>\$ 30,115</b>	<b>\$ 32,174</b>	<b>\$ 32,865</b>	<b>\$ 691</b>	<b>2.1 %</b>	
Federal Sources	4,257	4,725	4,703	4,815	6,567	5,920	5,386	3,682	4,154	3,903	(251)	(6.0)	
<b>Total Base Revenue</b>	<b>\$ 26,160</b>	<b>\$ 27,359</b>	<b>\$ 28,640</b>	<b>\$ 29,659</b>	<b>\$ 29,144</b>	<b>\$ 27,933</b>	<b>\$ 31,466</b>	<b>\$ 33,797</b>	<b>\$ 36,328</b>	<b>\$ 36,768</b>	<b>\$ 440</b>	<b>1.2 %</b>	
Transfer from Budget													
Stabilization Fund	276	276	276	276	276	276	276	275	275	275	0	0.0	
Interfund Borrowing	0	0	0	0	0	0	496	0	0	0	0	N/A	
Cash Flow Transfer	982	0	456	1,503	300	870	259	0	0	0	0	N/A	
Short-Term Borrowing	765	1,000	900	2,400	2,400	1,250	1,300	0	0	0	0	N/A	
<b>Total Revenue</b>	<b>\$ 28,183</b>	<b>\$ 28,635</b>	<b>\$ 30,272</b>	<b>\$ 33,838</b>	<b>\$ 32,120</b>	<b>\$ 30,329</b>	<b>\$ 33,797</b>	<b>\$ 34,072</b>	<b>\$ 36,603</b>	<b>\$ 37,043</b>	<b>\$ 440</b>	<b>1.2 %</b>	

\* Excludes riverboat gaming receipts.

## GENERAL FUNDS BASE REVENUE

transaction forms (auto sales) increased approximately 1.6%. As a result, revenues from the state sales tax totaled \$7.676 billion, an increase of \$321 million or 4.4%. Nationally, retail sales for the fiscal year were up 3.8%.

Transfers in from other funds increased \$199 million or 10.2% for the year totaling \$2.152 billion. Lottery transfers into the Common School Fund were up \$12 million while riverboat gambling transfers decreased \$24 million. All other transfers in were up \$211 million due to the \$397 million transfer from the Income Tax Refund Fund and a \$70 million increase in transfers from the Capital Projects Fund. This growth was partially offset by a decline of \$214 million in transfers from the FY13/FY14 Backlog Payment Fund.

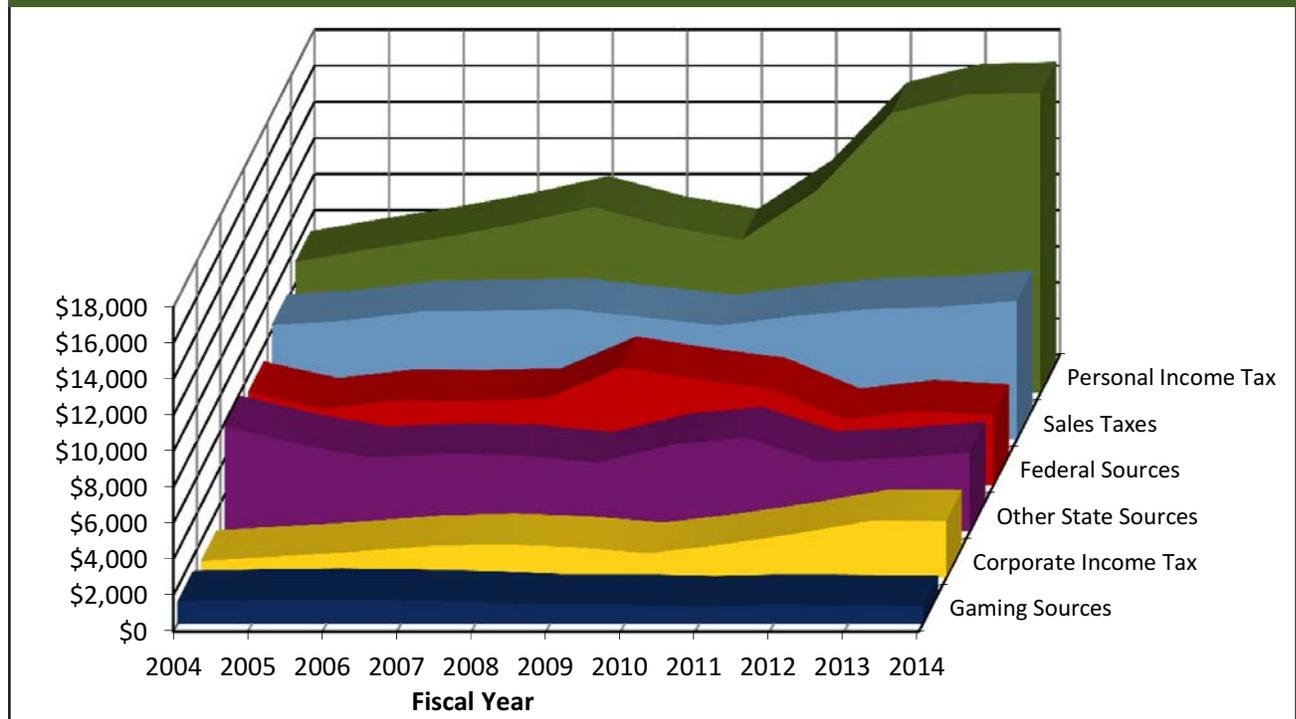
For fiscal year 2014, public utility taxes decreased 1.9% with telecommunications tax revenues \$69 million lower, while revenues from the natural gas tax increased \$44 million and electric tax receipts were up \$5 million. Gas and electric are consumption-based taxes and change with increases or decreases in usage.

Receipts from other tax sources were up \$100 million or 4.7% for the year. There was a \$62 million increase in court settlement proceeds and \$59 million was returned to the General Revenue Fund from an overpayment to the State Employees Retirement System.

Federal sources decreased \$251 million or 6.0% in fiscal year 2014 to a total of \$3.903 billion. Last year, the surge in income tax revenue allowed for the payment and reduction of the Medicaid backlog. This year reimbursable spending for Medicaid was down.

For fiscal year 2014, income and sales taxes brought in 74.2% of total General Funds total revenues, while federal sources and other sources accounted for 10.5% and 15.3%, respectively. While the economy remains a major factor in determining General Funds revenue performance, several unique factors had a significant impact.

General Funds Base Revenues  
Dollar Amounts in Millions



## GENERAL FUNDS BASE SPENDING

General Funds base expenditures for fiscal year 2014, which excludes borrowing repayments, totaled \$36.701 billion, an increase of \$1.466 billion or 4.2% from fiscal year 2013 spending. Of this total, the spending by state agencies increased by \$1.186 billion and regular transfers out increased by \$280 million. Including the fiscal year 2014 increase, base spending from the General Funds has increased by an average of \$1.164 billion over the last nine fiscal years.

Looking at all cash expenditures, General Funds transfers for interfund borrowing repayments were down \$133 million.

For fiscal year 2014, the State Board of Education, the Departments of Healthcare and Family Services (formerly the Department of Public Aid), Human Services, Central Management Services, Corrections, and Higher Education spending ac-

counted for \$23.282 billion or 74.0% of all agency spending.

The Department of Healthcare and Family Services (DHFS) had the highest state agency spending in fiscal year 2014 and accounted for 23.2% of total agency spending. DHFS spending of \$7.292 billion was \$566 million, or 8.4%, more than fiscal year 2013. State employee health insurance appropriations were shifted to the Department of Central Management Services (CMS) in fiscal year 2013.

The State Board of Education was the second highest spending agency in fiscal year 2014 with \$6.681 billion or 21.2% of total state agency spending. The State Board of Education's spending increased slightly by \$142 million or 2.2% from fiscal year 2013. General state aid to school districts accounts for the largest portion (66.5% or \$4.442 billion) of State Board spending.

General Funds Expenditures (From Current Year Appropriations)												
By Major Agency												
(Millions of Dollars)												
Agency	Fiscal Year										Change from	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Amount	Percent
Healthcare and Family Services (Public Aid)	\$ 4,990	\$ 7,343	\$ 7,725	\$ 8,089	\$ 9,556	\$ 7,239	\$ 7,309	\$ 8,158	\$ 6,726	\$ 7,292	\$ 566	8.4 %
State Board of Education	5,751	6,045	6,472	6,995	7,357	7,273	6,912	6,739	6,539	6,681	142	2.2
Teachers Retirement	942	610	814	1,110	1,527	914	256	2,494	2,790	3,529	739	26.5
Human Services	3,747	3,817	3,885	4,086	4,144	3,997	3,894	3,415	3,448	3,217	(231)	(6.7)
Higher Education	2,210	2,190	2,269	2,195	2,398	2,230	2,146	2,844	3,234	3,303	69	2.1
Central Management Services	983	95	105	82	74	88	96	75	1,481	1,513	32	2.2
Corrections	1,198	1,170	1,119	1,208	1,308	1,156	1,205	1,210	1,172	1,276	104	8.9
State Employees Retirement	66	0	0	0	0	0	39	904	1,049	1,097	48	4.6
Aging	331	352	421	458	537	653	646	731	1,060	935	(125)	(11.8)
Children and Family Services	754	803	771	887	906	847	840	806	721	684	(37)	(5.1)
Judicial Agencies	325	305	322	351	376	310	323	375	398	458	60	15.1
State Police	175	173	193	210	215	265	272	271	245	286	41	16.7
Secretary of State	126	125	131	143	144	257	259	258	250	258	8	3.2
Revenue	125	127	148	156	155	128	134	123	108	109	1	0.9
Other Agencies	819	958	1,136	1,201	1,091	961	1,138	894	1,093	901	(192)	(17.6)
Prior Year Adjustments	25	(10)	(11)	(14)	(14)	(17)	(22)	(88)	(21)	(60)	(39)	N/A
<b>Total, General Funds Warrants Issued</b>	<b>\$ 22,567</b>	<b>\$ 24,103</b>	<b>\$ 25,500</b>	<b>\$ 27,157</b>	<b>\$ 29,774</b>	<b>\$ 26,301</b>	<b>\$ 25,447</b>	<b>\$ 29,209</b>	<b>\$ 30,293</b>	<b>\$ 31,479</b>	<b>\$ 1,186</b>	<b>3.9 %</b>
Regular Transfers Out	3,657	3,059	2,973	3,201	3,185	3,304	5,070	4,259	4,942	5,222	280	5.7
<b>Base General Funds Expenditures</b>	<b>\$ 26,224</b>	<b>\$ 27,162</b>	<b>\$ 28,473</b>	<b>\$ 30,358</b>	<b>\$ 32,959</b>	<b>\$ 29,605</b>	<b>\$ 30,517</b>	<b>\$ 33,468</b>	<b>\$ 35,235</b>	<b>\$ 36,701</b>	<b>\$ 1,466</b>	<b>4.2 %</b>
Short-Term Borrowing Repayment	768	1,014	11	1,503	1,424	2,276	1,322	0	0	0	0	N/A
Transfer to Budget Stabilization Fund	276	276	276	276	276	0	276	550	275	275	0	0.0
Repayment of Interfund Borrowing	0	0	0	0	0	0	9	355	133	0	(133)	(100.0)
Cash Flow Transfer	979	0	1,356	2,400	300	870	260	0	0	0	0	N/A
<b>Total, General Funds Expenditures</b>	<b>\$ 28,247</b>	<b>\$ 28,452</b>	<b>\$ 30,116</b>	<b>\$ 34,537</b>	<b>\$ 34,959</b>	<b>\$ 32,751</b>	<b>\$ 32,384</b>	<b>\$ 34,373</b>	<b>\$ 35,643</b>	<b>\$ 36,976</b>	<b>\$ 1,333</b>	<b>3.7 %</b>

# GENERAL FUNDS BASE SPENDING

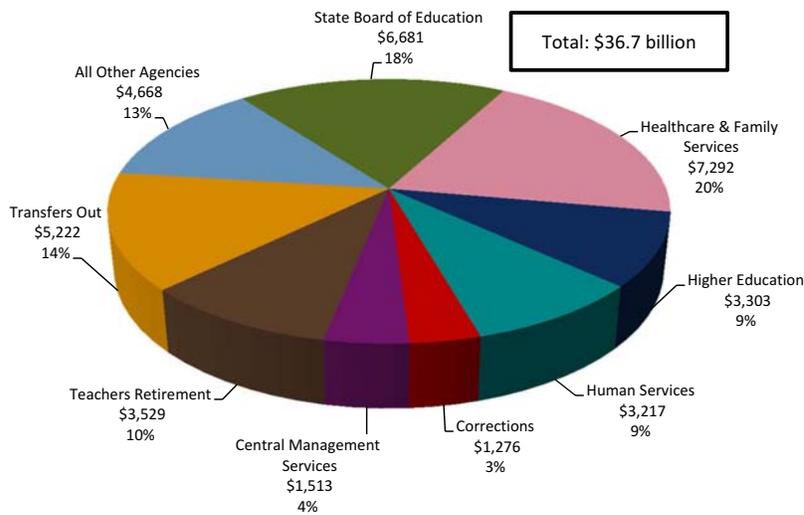
In fiscal year 2014, the Department of Human Services' spending decreased slightly to \$3.217 billion from \$3.448 billion. The Department of Central Management Services expenditures for the year totaled \$1.513 billion, an increase of \$32 million or 2.2%. Fiscal year 2014 Corrections spending of \$1.276 billion was an increase of \$104 million or 8.9% from fiscal year 2013. The Department on Aging's spending decreased \$125 million or 11.8%.

spending by the State Universities Retirement System. The Teachers' Retirement System, which is now the third largest spending agency, increased expenditures 26.5% to \$3.529 billion in fiscal year 2014. The State Employees' Retirement System had \$1.097 billion in expenditures, a 4.6% increase from fiscal year 2013, as retirement spending from the General Funds continues to be appropriated directly to the retirement system instead of each agency.

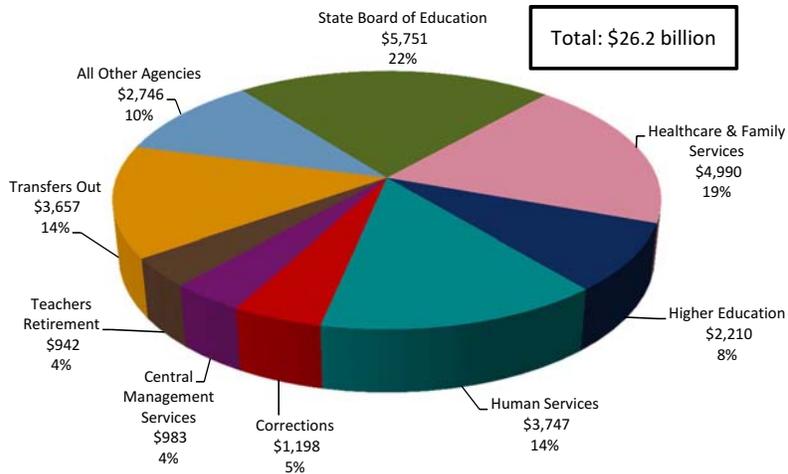
Higher Education agencies' spending increased from \$3.234 billion in fiscal year 2013 to \$3.303 billion, an increase of 2.1% in fiscal year 2014. However, almost all of that increase (\$59 million) was in

Transfers Out increased \$280 million or 5.7% due to increased transfers for bond debt service and to various other funds.

**FY 2014 General Funds Expenditures**  
(\$ in millions)



**FY 2005 General Funds Expenditures**  
(\$ in millions)



## FISCAL CLIMATE

Fiscal year 2014 began with an improved fiscal position compared to prior years as unexpectedly strong income tax revenues in the spring of 2013 led to a reduction in the backlog of outstanding payables and in Section 25 liabilities, reducing the number of old bills carried forward into the year. However, further improvement was not expected in fiscal year 2014 as certain revenues were projected to decline and General Funds appropriations were up \$324 million. Individual and corporate income taxes were estimated to decrease due to the April 2013 surge in income tax revenues drawing taxable income into fiscal year 2013 instead of fiscal year 2014.

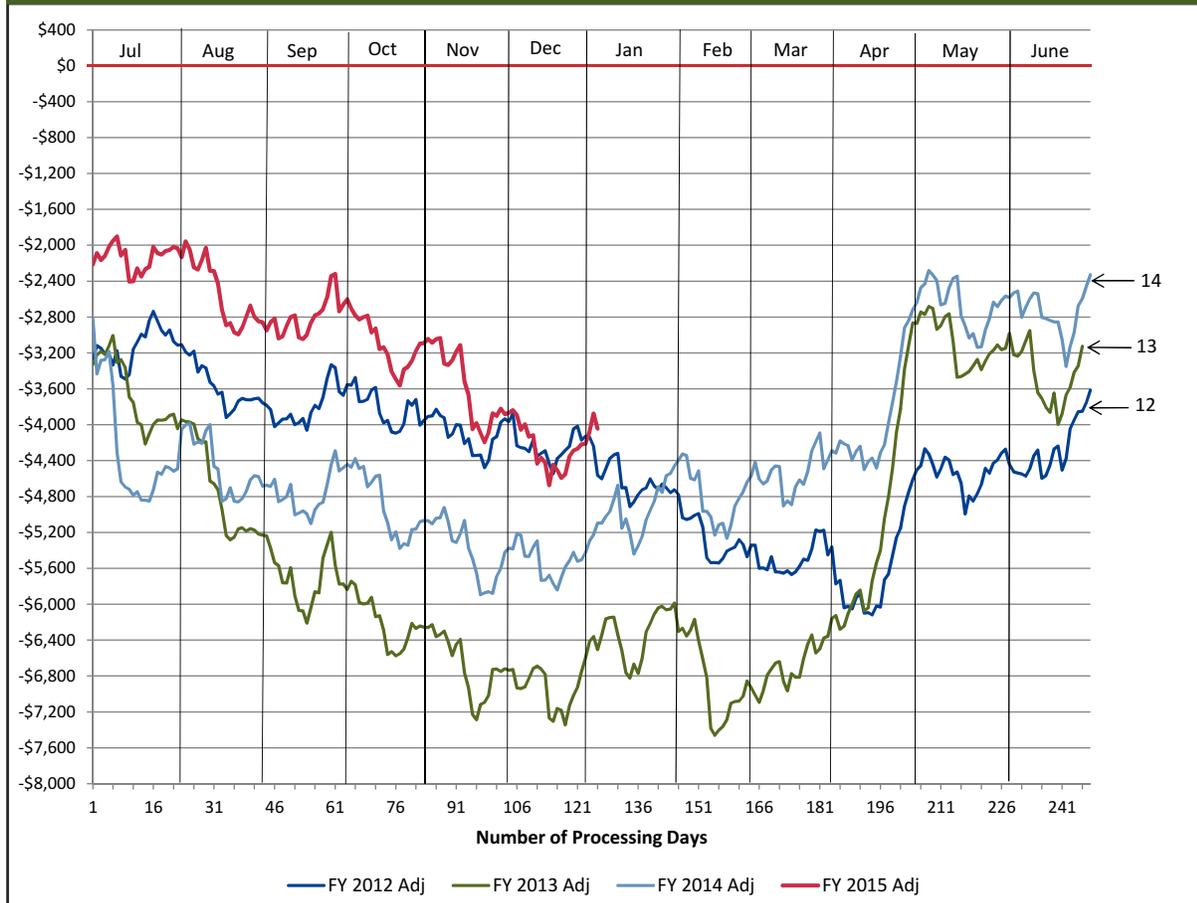
Original fiscal year 2014 General Funds appropriations totaled \$31.172 billion. With revenues ex-

pected to fall and spending expected to grow, a deterioration of the financial position for the year was likely.

At the end of the first quarter of fiscal year 2014, the backlog of General Funds unpaid bills at the Comptroller's Office (IOC) totaled \$4.603 billion. While the backlog was \$1.3 billion higher than at the end of fiscal year 2013, it was \$1.3 billion less than September 2012.

Through September 2013, base revenues increased 6.1 percent as income tax revenues increased (primarily due to estimated tax payments), sales tax receipts had higher than expected growth, and a \$397 million transfer from the Income Tax Refund Fund exceeded budget esti-

**Comparison of General Funds Daily Cash Balances  
FY 2013 - FY 2015 Adjusted to Reflect Unpaid Bills  
Dollar Amounts in Millions**



mates. Base spending increased 9.0 percent for the quarter as the state was able to pay all of its General Funds bills carried from the previous fiscal year. This was the earliest completion date for lapse period spending since 2009.

At the end of December 2013, the backlog of unpaid bills from the General Funds in the Comptroller's Office totaled \$5.499 billion, with vouchers dating back to October 2013. The General Funds backlog grew by \$896 million during the second quarter and was \$2.2 billion higher than it was at the end of fiscal year 2013. However, it continued to look better than the previous year as it was nearly \$1.4 billion lower than the end of December 2012 backlog.

Sound revenue growth continued through the second quarter of fiscal year 2014. General Funds total base revenues increased \$601 million, or 3.8 percent, in the first half of the fiscal year as income and sales tax collections continued to do well. General Funds base spending had increased by \$782 million, or 4.9 percent, through the second quarter of fiscal year 2014.

By the end of the third quarter of fiscal year 2014, the backlog of bills at the IOC totaled \$4.459 billion. While this was a \$1.04 billion improvement from the end of the second quarter, it was also \$2.051 billion lower than at the end of March 2013. After nine months, base revenues were up \$1.05 billion and base spending had grown by \$1.262 billion.

At the end of fiscal year 2014, the backlog of unpaid bills and fund transfers at the IOC in the General Funds totaled \$2.404 billion. Beyond this total, there were over \$2.0 billion in outstanding liabilities – primarily Medicaid and state employee health insurance bills – that had not been submitted to the IOC. This end of year backlog was an \$876 million improvement over the prior year.

Base revenues for the year increased \$440 million while base spending grew by \$767 million. Revenue growth exceeded forecasters' expectations,

which led to the decline in the backlog. However, this unexpected revenue growth led to the passage of fiscal year 2014 supplemental appropriations late in the year totaling \$974 million from the General Funds.

Fiscal year 2014 lapse period spending of \$1.626 billion once again resulted in almost \$4 billion in fiscal year 2015 revenues used to pay prior year liabilities. On a budgetary basis, the General Funds fiscal end of year balance improved from a negative \$3.988 billion for fiscal year 2013 to a negative \$3.931 billion for fiscal year 2014, a minimal improvement in the budgetary balance. Section 25 liabilities at the end of the fiscal year and carried over into fiscal year 2015, decreased – totaling \$2.1 billion – but even at this lower level, contributes to financial challenges in fiscal year 2015.

### A Look at Fiscal Year 2015

Fiscal year 2015 began with a modest improvement in the state's fiscal position. However, improvement is not expected to continue in fiscal year 2015 as certain revenues are projected to experience significant declines, even though General Funds appropriations are down \$654 million.

Most significant will be the decline in income tax revenue as the income tax rates decrease January 1, 2015. The individual income tax rate decreases from 5% to 3.75% and the corporate income rate moves from 7.0% to 5.25%. In addition, the percentages allocated to the Income Tax Refund Fund were increased which will further reduce the income tax revenue to the General Funds. Additionally, the transfer of surplus revenues from the Income Tax Refund Fund to the General Revenue Fund declined. These factors combined are estimated to reduce General Funds revenues by \$2.2 to \$2.5 billion in fiscal year 2015. With the estimated increase in sales tax and federal revenues, total General Funds revenues are projected to decrease from \$1.8 to \$2.1 billion for the year. The enacted budget authorized inter-fund short-term borrowing of \$650 million to partially offset the decline in revenues.

At the end of the first quarter of fiscal year 2015, the backlog of unpaid bills at the IOC totaled \$2.717 billion. While the backlog was \$313 million higher than at the end of fiscal year 2014, it was \$1.886 billion less than at the end of September 2013.

Through September 2014, base revenues decreased 5.0% as transfers in and federal revenues declined. The transfer from the Income Tax Refund Fund was \$334 million less than the transfer in fiscal year 2014 and federal revenues fell as Medicaid spending was shifted to other funds. Base spending was down 5.2% due to a change in the vouchering pattern by the Department of Central Management Services. Last year \$1.3 billion for employee health insurance was presented for payment in July while the agency is expected submit payments more evenly over the course of fiscal year 2015.

The General Funds backlog of unpaid bills at the IOC at the end of December 2014 totaled \$4.360 billion. While this was \$1.956 billion higher than at the end of fiscal year 2014, it was \$1.139 billion less than the same time in fiscal year 2014.

Through the second quarter, base revenues declined 2.6% lead by decreases in transfers in and federal revenues. Corporate income tax revenues experienced additional decreases which is cause for concern. Base spending was down 2.7% through the second quarter due primarily to employee health insurance payment schedule.

With the decrease in income tax rates going into effect in January 2015, income tax revenues will begin to decline for the remainder of the year which will exacerbate the cash flow problems of the state absent any other revenue or expenditure adjustments. ■