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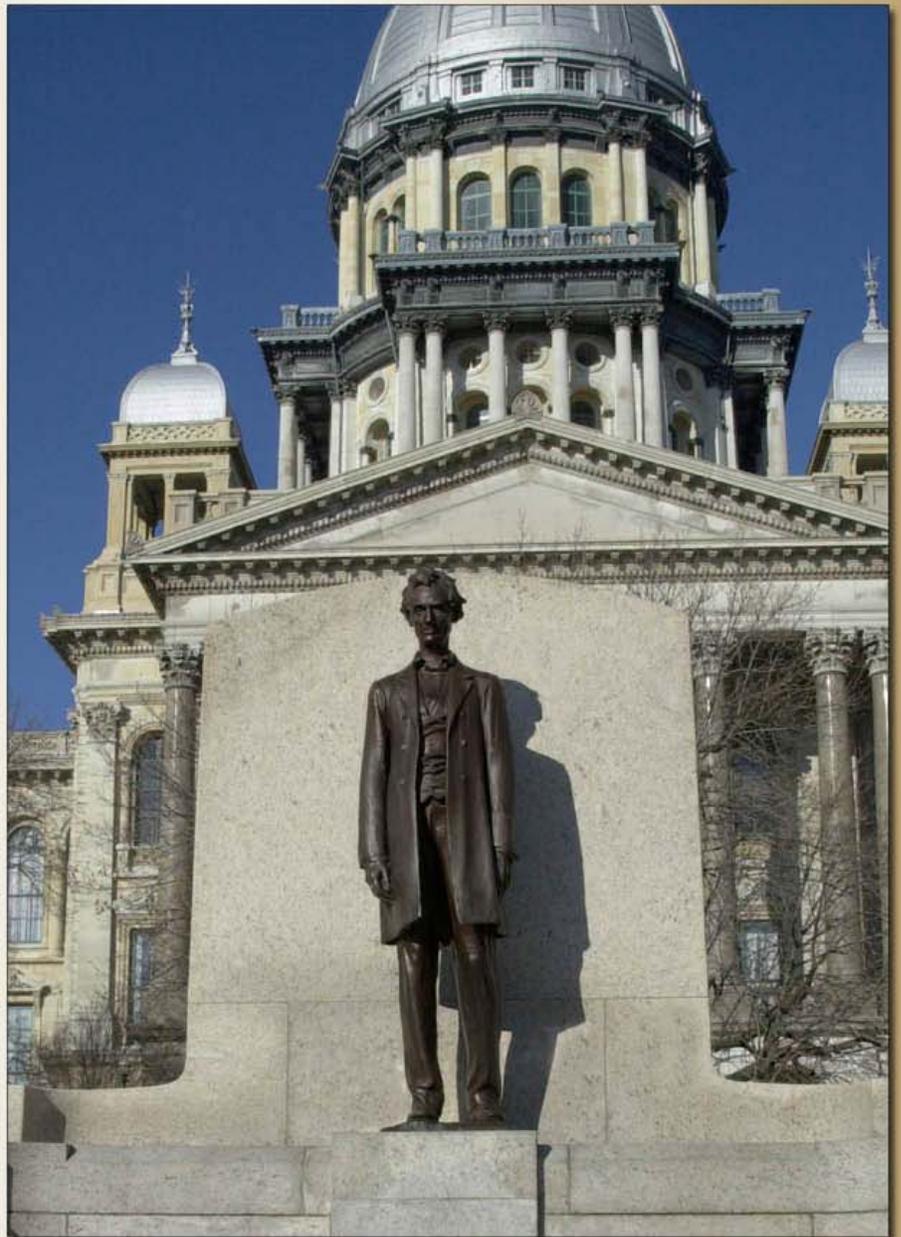
DANIEL W. HYNES
COMPTROLLER

www.ioc.state.il.us

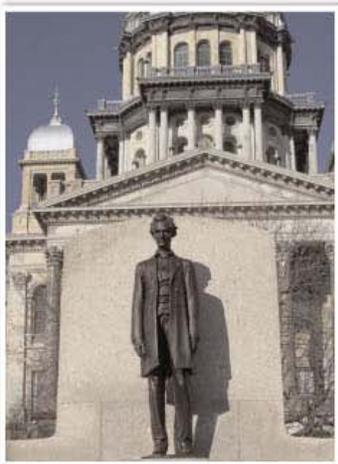


EXECUTIVE SUMMARY

Fiscal Year Ended June 30, 2006



Comptroller Daniel W. Hynes is the Chief Fiscal Officer for the State of Illinois, managing its financial accounts, processing approximately 15 million transactions a year, and performing a watchdog role to assure that all payments meet the requirements of the law. The Comptroller's Office also provides timely and accurate fiscal information and analysis to the Governor, the Illinois General Assembly, and Local Government Officials so they can make informed budget decisions. In addition, the Office oversees the state's private cemetery and funeral home industry.



COVER PHOTO:

Courtesy of Heather Bradley, Photographer,
Communications Department, Illinois Secretary of State

ABRAHAM LINCOLN

Sculptor: Andrew O'Connor

In 1913, the Illinois State Art Commission was authorized to secure a new statue of Abraham Lincoln for Illinois' centennial. The 10-foot, 6-inch bronze statue with its large granite base and backdrop stands prominently on the far east Capitol grounds along Second Street. The statue is engraved with Lincoln's "Farewell to Springfield" speech and cost about \$50,000. It was dedicated on October 5, 1918, the centennial of the first meeting of the Illinois General Assembly.



February, 2007

DANIEL W. HYNES

A Message to Illinois Taxpayers

The mission and priorities of my administration include providing taxpayers with useful and understandable information about the fiscal operations of the State of Illinois. This presentation of the *Executive Summary*, also known by the financial community as Illinois' popular annual financial report, is written to enhance public understanding of the state's financial statements.

The report combines information based on 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 these other reports can be accessed at our Web site, www.ioc.state.il.us, or by calling at (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 examine 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 also is a useful resource for taxpayers to measure the effectiveness of governmental programs.

This year's report notes that after a previous decline, the General Fund GAAP balance has improved. The state ended fiscal year 2006 with a negative General Fund balance of \$2.328 billion indicating that the state's GAAP deficit improved by \$736 million compared to the prior year. The cash position also improved as the General Funds budgetary balance increased by \$183 million, from a deficit of \$474 million to a deficit of \$291 million.

In addition to the improvement of both the GAAP balance and the effective cash position of the General Funds, Section 25 liabilities decreased to \$2.385 billion as of June 30, 2006.

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

Sincerely,

Daniel W. Hynes
Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

State of Illinois

for the Fiscal Year Ended

June 30, 2005



Thomas H. Moran
President

Jeffrey L. Esser
Executive Director

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INTRODUCTION

State Government Background

Geographically located in the central portion of the United States, Illinois is a diverse state that covers almost 56,000 square miles of land. Many of Illinois' approximately 12.7 million inhabitants live in urban areas, although there is a strong rural presence in the state as well. Nearly one-fourth or approximately 2.9 million of the state's residents live in Chicago, the third largest city in the country. Six other municipalities including Aurora, Rockford, Naperville, Joliet, Peoria, and the state's capital of Springfield have populations in excess of 100,000 with another 20 municipalities' populations estimated to be in excess of 50,000.

The framework of government for Illinois and its 12.7 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-two 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 nineteen major departments in fiscal year 2006 including Human Services, Corrections, 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 offices. State government agencies combined directly employed a total of 72,903 persons at the end of fiscal year 2006, just 257 more than one year earlier. The Departments of Human Services (14,857), Corrections (13,695) and Transportation (6,354) account for nearly half of all direct government employees.

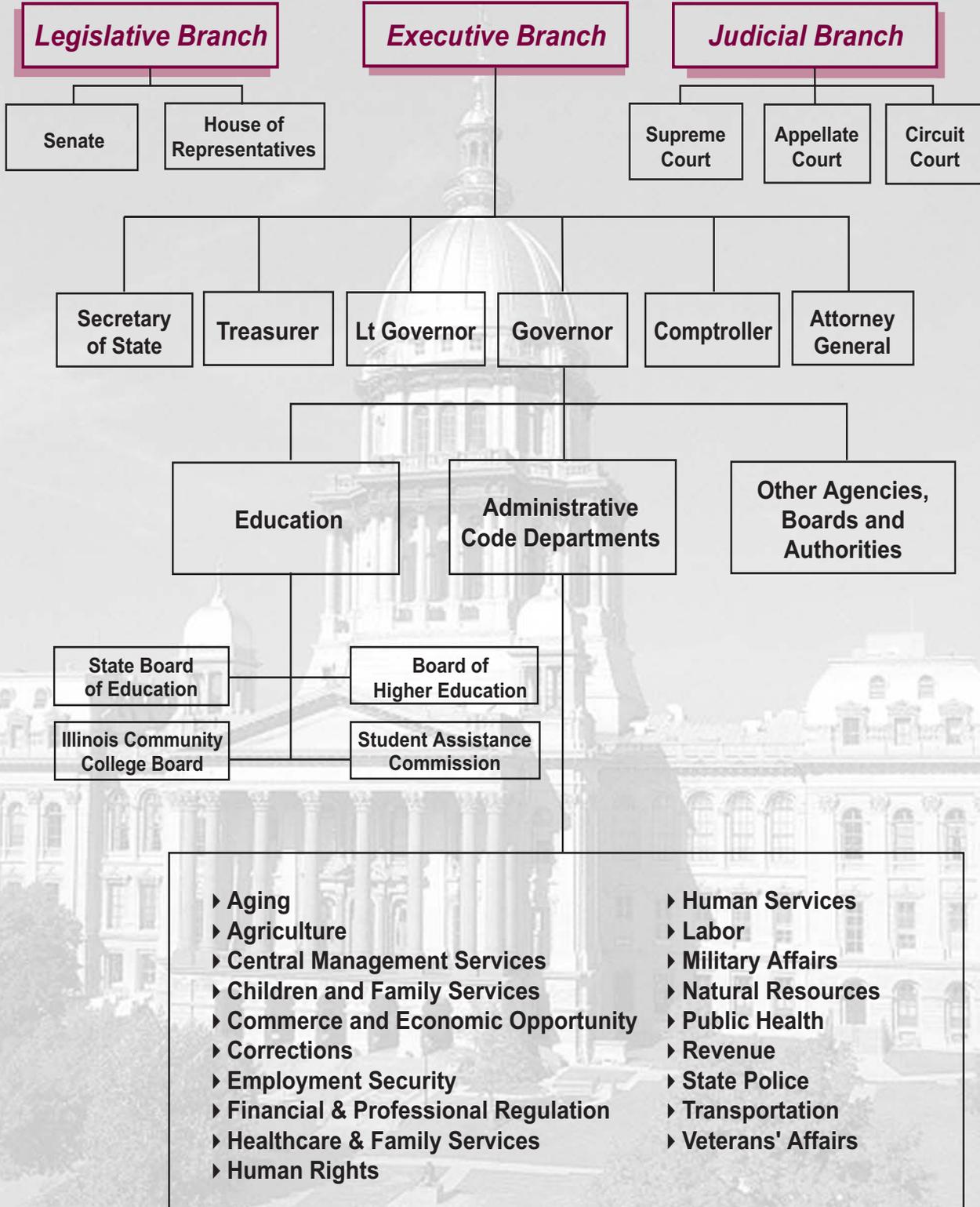
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 872 school districts and 4,249 schools. In fiscal year 2006, about 2.1 million public school children were instructed by just over 161,000 full-time, certified teachers throughout Illinois.

The 15-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 2006 fiscal year, approximately 555,000 students were enrolled in Illinois' public colleges and universities, and about 250,000 were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. The Department of Healthcare and Family Services administers the state's Medicaid and KidCare programs with more than 1.9 million people per month covered by Medicaid health services. The Department of Transportation administers the state's highway program through nine district offices with responsibility for the state's 17,000-mile state highway system.

Total state spending for these major programs and all other operations of state government in fiscal year 2006 was \$88.2 billion or approximately \$6,945 for every person in Illinois. Total state revenues for the year were \$88.9 billion with federal revenues (\$12.4 billion), income taxes (\$11.4 billion) and sales taxes (\$10.8 billion) being the largest sources. The largest functions of spending included General Government (\$38.0 billion), Health and Social Services (\$21.9 billion), and Education (\$14.3 billion).

ELECTORATE



Economic Outlook

Fiscal Year 2006

Economic growth continued at a steady pace in Illinois during fiscal year 2006. The Illinois unemployment rate decreased from 6.0% in fiscal year 2005 to 5.2% for 2006, the lowest Illinois average unemployment rate since fiscal year 2001. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.895 million workers in fiscal year 2006 an increase of 59,000 jobs or 1.0% above 2005 employment and 150,000 jobs or 2.5% below peak employment of 6.045 million jobs in fiscal year 2001. During the nine consecutive years of employment growth culminating in fiscal year 2001, Illinois added 830,000 nonagricultural jobs (a 15.9% increase).

A second Illinois employment estimate, obtained through a household survey, showed a somewhat greater increase in Illinois employment. According to this survey, Illinois employment was up 113,000 or 1.9% in fiscal year 2006, but still remained below the peak fiscal year 2000 employment level.

The shift in Illinois employment from the manufacturing to the service sectors continued in fiscal year 2006. Average fiscal year 2006 manufacturing employment of 685,000 jobs was down 9,000 jobs or 1.3% from fiscal year 2005 and down 222,000 jobs or 24.5% from the cyclical peak manufacturing employment of 907,000 jobs during fiscal year 1998. In contrast, total employment in the service sectors including information, financial, business, education and health, and leisure and hospitality services was up 59,000 jobs or 2.1% to a record level of 2.894 million jobs in fiscal year 2006.

A more comprehensive measure of Illinois' economic performance is the change in state personal income adjusted for inflation. This value increased 1.8% in fiscal year 2006 as a 5.7% increase in nominal personal income was offset by a 3.8% increase in the consumer price index. State personal income adjusted for inflation had increased 1.3% in fiscal year 2004 and 1.1% in fiscal year 2005.

Fiscal Year 2007 and Beyond

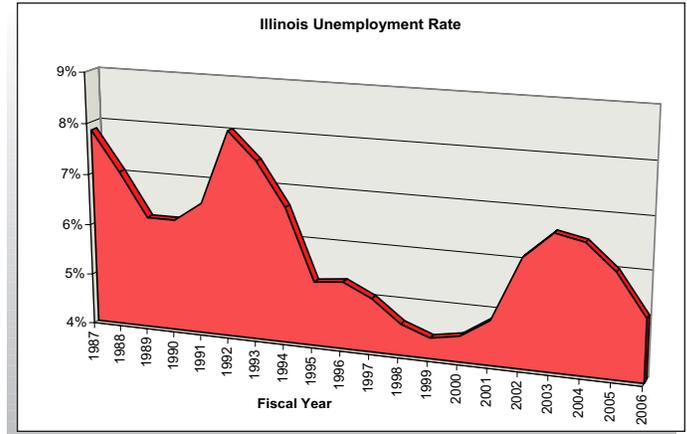
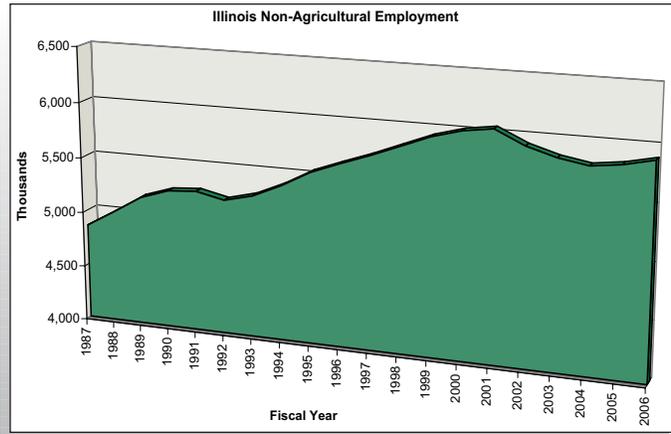
Positive economic growth is expected to continue during fiscal year 2007 despite continued unease

about the future of the housing sector. Home to 32 of the Fortune 500 companies, Illinois is tightly integrated into the international economy as measured by exports of \$35.9 billion in calendar year 2005 ranking Illinois 6th highest among the states including a number 4 ranking for agricultural exports. To thrive in such a competitive climate, Illinois must maintain superior transportation and communication infrastructures, provide educational and training opportunities to support a skilled and adaptable labor force, and foster businesses that create and transfer new technologies into the workplace.

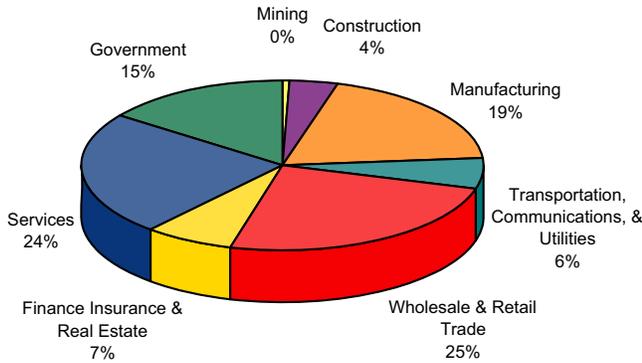
Chicago is the transportation crossroads of the United States. It is home to O'Hare Airport which was again ranked as one of the World's Busiest Airports in 2005 as well as being the hub for the national rail and highway networks. Through expanding private networks and the state initiatives such as the 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 2006, Illinois private institutions served 244,000 students with another 202,000 served by the public universities. A statewide system of community colleges (353,000 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.

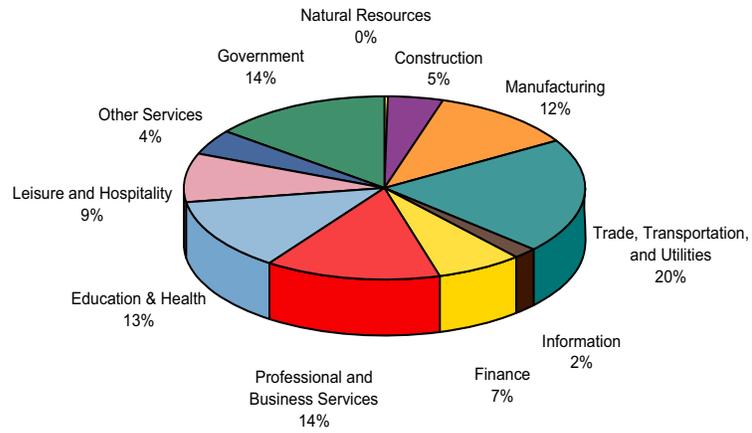
Year-End Economic Summary



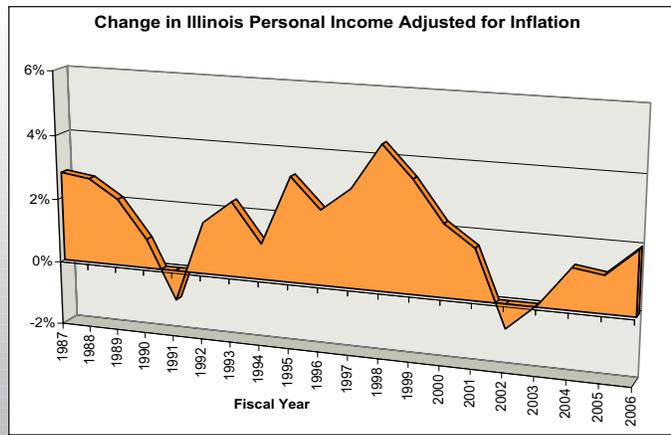
Illinois Employment by Industry Fiscal Year 1987



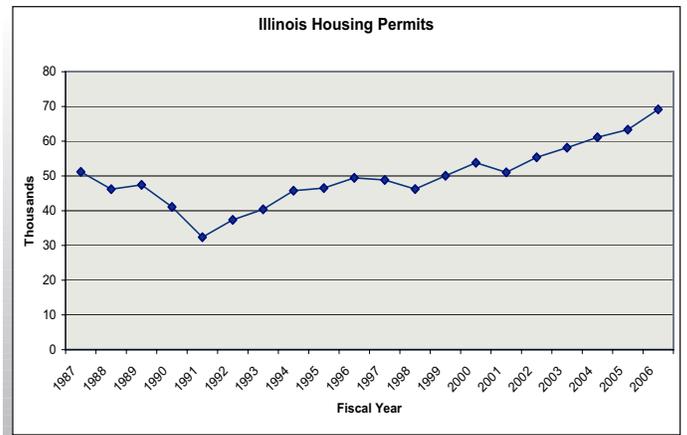
Illinois Employment by Industry Fiscal Year 2006



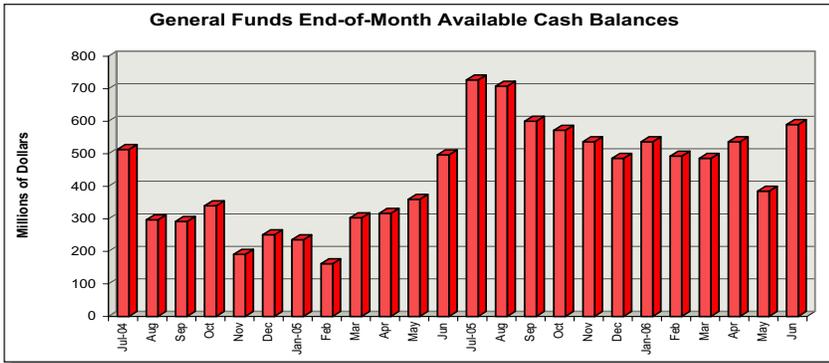
Change in Illinois Personal Income Adjusted for Inflation



Illinois Housing Permits



Year-End Fiscal Summary



Taxes Receivable

(in millions)	6/30/05	6/30/06	Change
Gross Balance	\$2,652	\$2,565	(\$87)
Uncollectibles	\$781	\$757	(\$24)

Major Unfunded and Long Term Liabilities

(in millions)	FY 2005	FY 2006
Net Pension Obligation	\$ 12,036	\$ 14,455
General Obligation Bonds	\$ 20,648	\$ 20,965
Build Illinois and Civic Center Bonds	\$ 2,443	\$ 2,539

G.O. Bond Rating

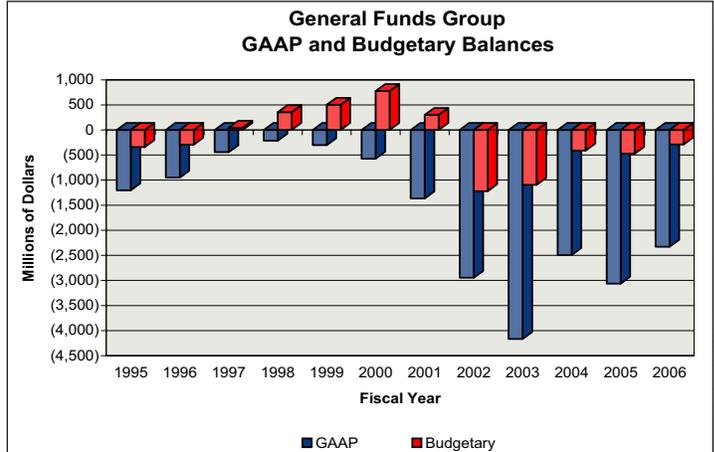
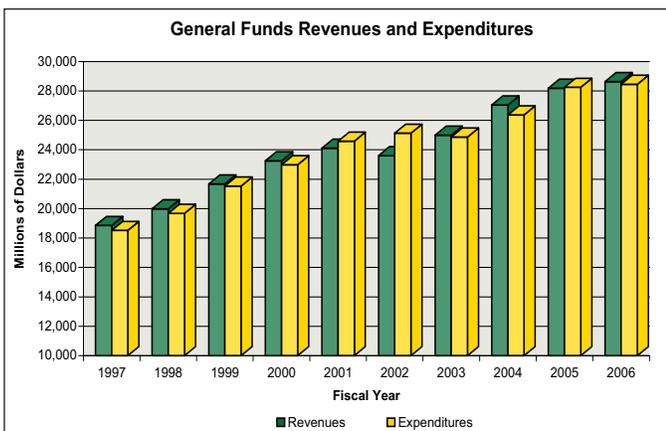
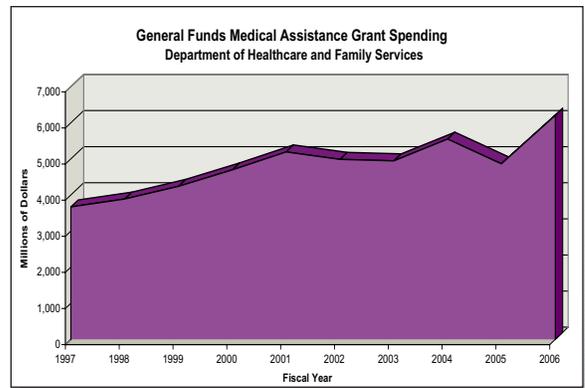
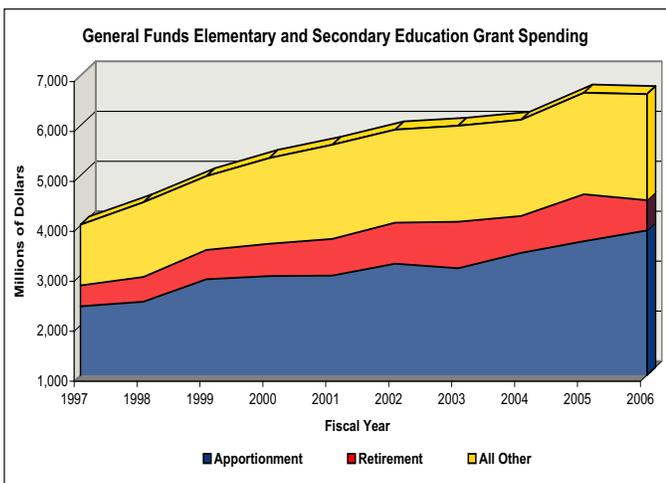
Moody's	Aa3
S&P	AA

General Funds Fiscal Activity

(in millions)	FY 2005	FY 2006	Change
Beginning Balance	\$ 182	\$ 497	\$ 315
Revenues	\$ 28,183	\$ 28,635	\$ 452
Expenditures	\$ 27,868	\$ 28,542	\$ 674
Ending Balance	\$ 497	\$ 590	\$ 93
Lapse Period Warrants	\$ 971	\$ 881	(\$90)
Budgetary Balance	\$ (474)	\$ (291)	\$ 183

Section 25 Liabilities

(in millions)	6/30/05	6/30/06	Change
Liabilities	\$2,949	\$2,385	(\$564)



GAAP BASIS

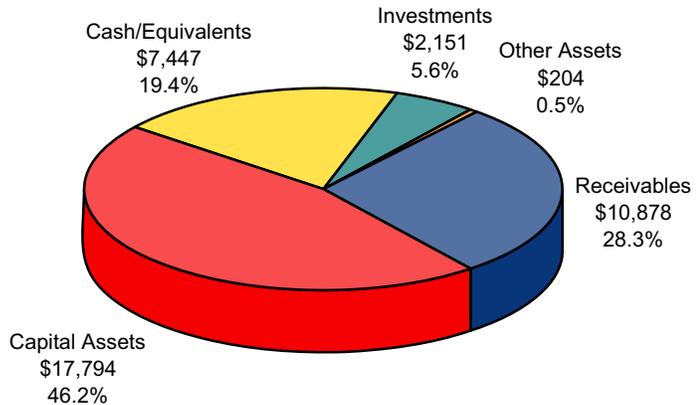
GAAP Basis Financial Information Summary

The following information has been condensed from the statements included in the State of Illinois *Comprehensive Annual Financial Report* utilizing the total column of the primary government.

ASSETS

Total assets of the State of Illinois at June 30, 2006, were approximately \$38.5 billion, an increase of \$2.5 billion from June 30, 2005. Capital assets of the state consist of \$17.8 billion (46%) of the state's assets.

Total Assets (Primary Government)
June 30, 2006
Millions of Dollars



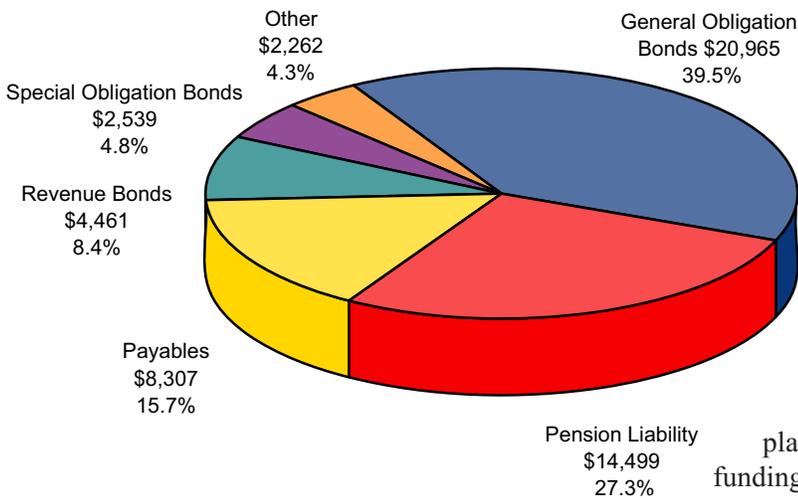
LIABILITIES

Total liabilities of the state were approximately \$53.0 billion at June 30, 2006, an increase of \$2.2 billion from June 30, 2005. The state's largest liability balances are the net pension obligation of \$14.5 billion and the general and special obligation debt liability of \$23.5 billion.

Net Pension Obligation

The net pension obligation at June 30, 2006, for the state's five pension trust funds was \$14.5 billion, an increase of approximately \$2.5 billion from June 30, 2005. 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.

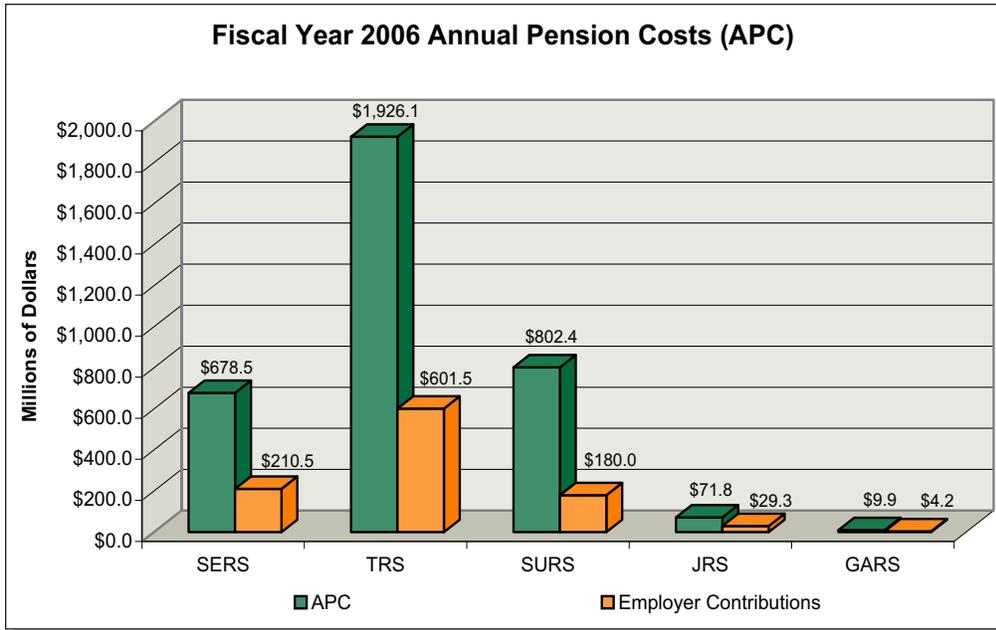
Total Liabilities (Primary Government)
June 30, 2006
Millions of Dollars



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 provides for a 15-year phase-in peri-

Liabilities

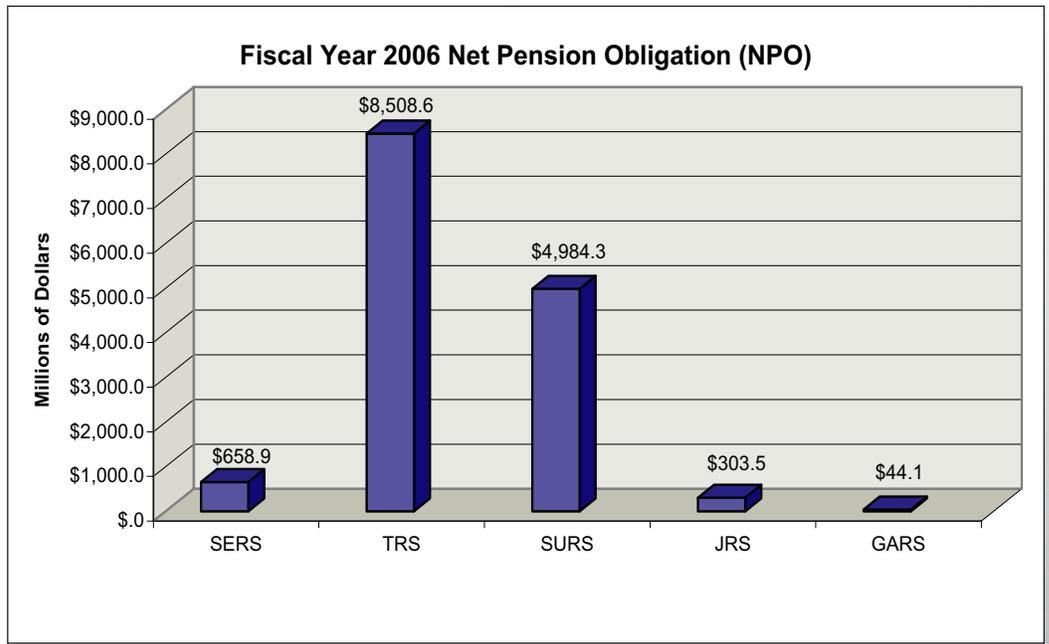


ences between estimated and actual federal contributions. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly’s appropriation process. In addition, contribu-

od to allow the state to adapt to the increased financial commitment. Once the 15-year phase-in period is complete, the state’s contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved. However,

tions 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

Public Act 94-0004 decreased the required funding levels for fiscal years 2006 and 2007 to \$938.4 million and \$1,374.7 million, respectively and requires equal annual increments from fiscal year 2008 to 2010 to ensure that the fiscal year 2006 and 2007 decreases have no long-term effect on contributions. As illustrated in the chart, the



state met its funding requirement established by statutory law for the fiscal year ended June 30, 2006.

Actual contributions varied slightly from contributions required by statute mainly because of differ-

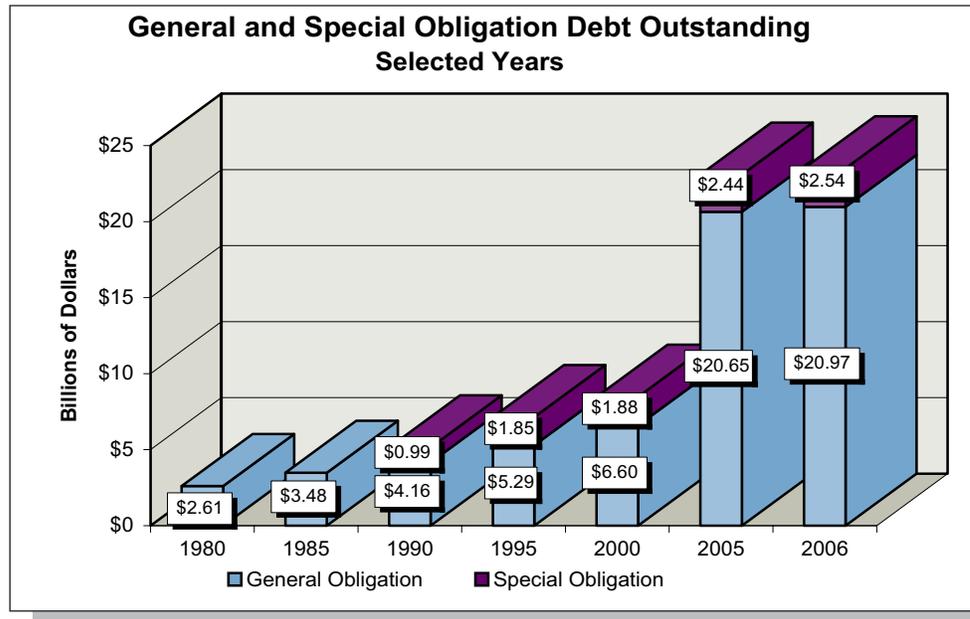
ences between estimated and actual federal contributions. The state’s APC for the current year and related information for each plan are included in the chart.

Bonds/Debt

GAAP BASIS

General and Special Obligation Bonds

General and special obligation bonds, excluding refunding bonds, aggregating \$925 million and \$215 million, respectively, were issued during fiscal year 2006 at average interest rates ranging from 3.25% to 5.50%. 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.



Fitch Ratings while S & P rated special obligation Build Illinois bonds as "AAA" and Moody's Investors Service rated special obligation Civic Center bonds as "A1".

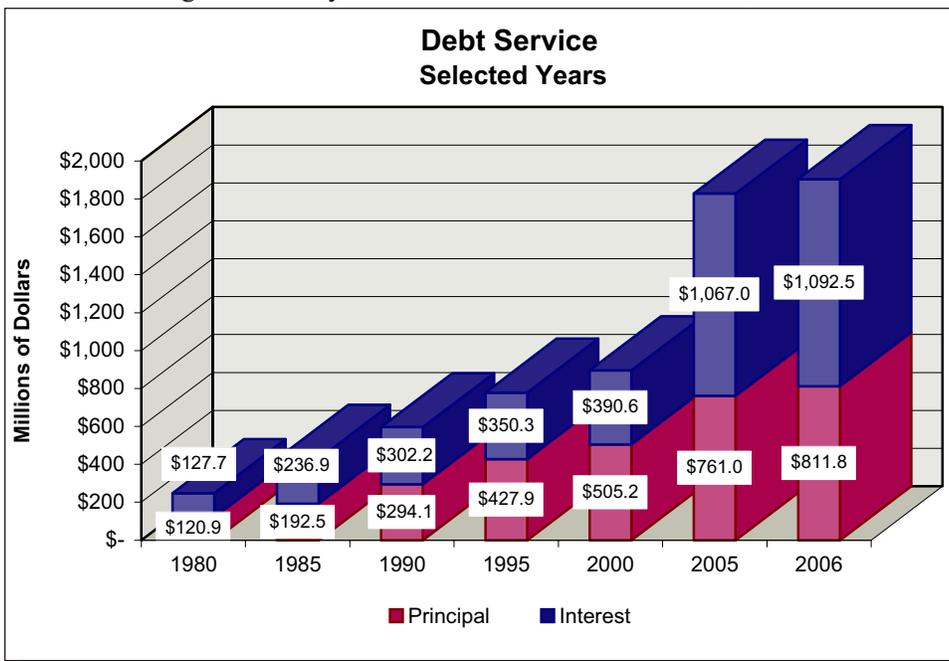
Fitch Ratings while S & P rated special obligation Build Illinois bonds as "AAA" and Moody's Investors Service rated special obligation Civic Center bonds as "A1".

Debt Administration

The state's general obligation bond ratings are as follows: Moody's Investors Service-"Aa3", Standard & Poor's Corporation (S & P)-"AA", and Fitch Ratings-"AA". Special obligation bond ratings for Build Illinois Bonds were the same as general obligation bond ratings for Moody's Investors Service and

Debt Service

Debt service principal and interest costs of \$811.8 million and \$1.1 billion, respectively, were paid in fiscal year 2006 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, is displayed in the chart to the left.



The dramatic increase in debt service since fiscal year 1980, which parallels the increase in general and special obligation bonds outstanding, is displayed in the chart to the left.

NET ASSETS

Net assets for the state were (\$14.5) billion at June 30, 2006. The state has \$12.4 billion of net assets invested in capital assets (net of related debt), \$4.8 billion of restricted net assets, and (\$31.7) billion of unrestricted net assets.

Governmental Activity Revenues

GOVERNMENTAL FUND REVENUES

The governmental activities of the state are presented in the governmental fund types (the general, special revenue, capital projects, debt service, and permanent funds) on the modified accrual basis of accounting.*

Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues from various sources for fiscal year 2006 for governmental funds are as follows.

Fiscal year 2006 governmental funds revenues increased by \$1.4 billion (3%) over fiscal year 2005 revenues. State-imposed taxes including income, sales, motor fuel, public utility, and miscellaneous other taxes remained the largest overall revenue source for fiscal year 2006, increasing \$734 million (3%), and comprised nearly 59% of total state revenues.

Income Taxes

Income tax revenues for fiscal year 2006 were \$11.3 billion which is a \$870 million (8%) increase from fiscal year 2005 income tax revenues of \$10.4 billion. The increase is generally the result of an increase in the economy.

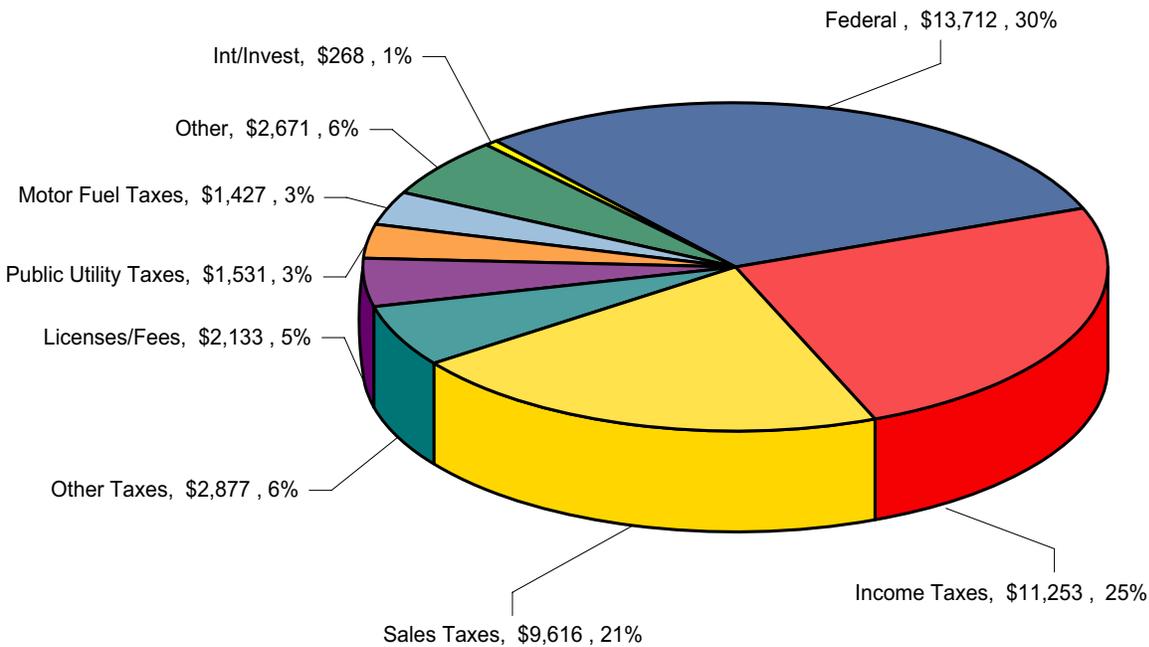
Sales Taxes

Sales taxes remained the second largest tax revenue source for fiscal year 2006 increasing \$469 million from fiscal year 2005.

Federal Government Revenues

Federal government revenues increased \$246 million from \$13.5 billion in fiscal year 2005 to \$13.7 billion in fiscal year 2006, and continued as the second largest overall revenue source behind taxes for the state's governmental funds.

Fiscal Year 2006 Governmental Fund Revenues
Millions of Dollars



* Note: The Comptroller's Office publishes a number of reports, including sections of this *Executive Summary*, that summarize the status of General Fund revenues and expenditures on a cash basis. These reports are available on the web site at www.ioc.state.il.us or by request.

Governmental Activity Expenditures

GAAP BASIS

GOVERNMENTAL FUND 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 \$45.6 billion in fiscal year 2006 decreased \$990 million (2%) from 2005 and were \$65 million more than revenues on a GAAP basis.

Health and Social Services Expenditures

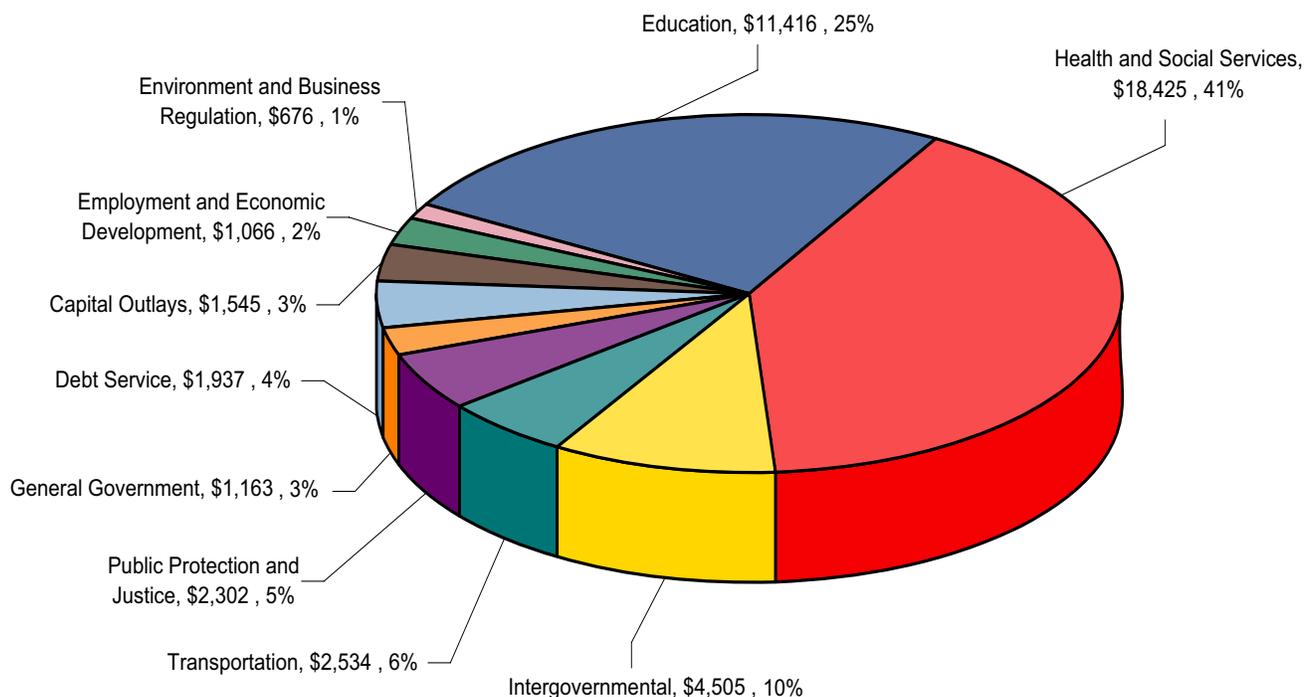
Health and social services expenditures of \$18.4 billion were the largest expenditure function for fiscal

year 2006, increasing by \$501 million (3%) over fiscal year 2005. This expenditure function is 40% 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 were the second largest expenditure function in the governmental funds for fiscal year 2006. Education expenditures decreased \$310 million from fiscal year 2005 on a GAAP basis and comprise 25% of total governmental expenditures.

Fiscal Year 2006 Governmental Fund Expenditures
Millions of Dollars



Business-Type Activities

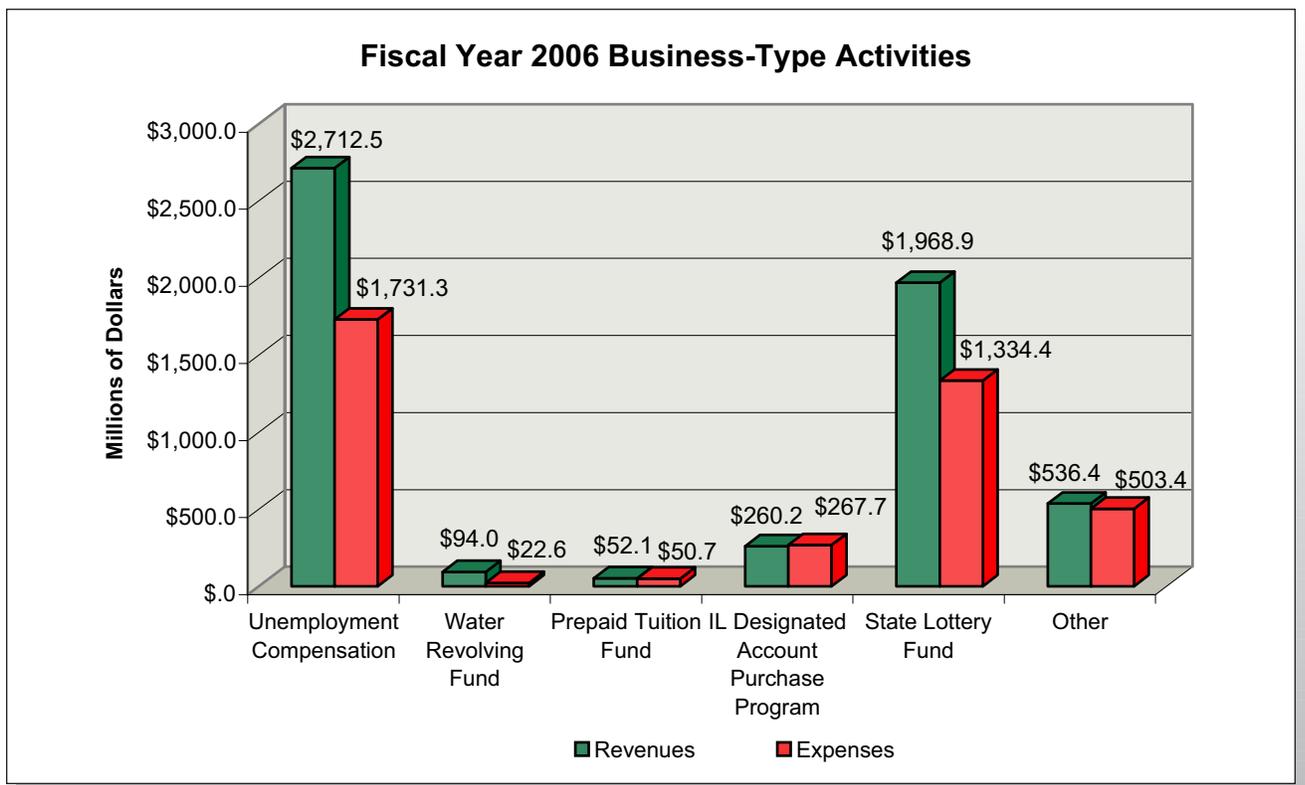
BUSINESS-TYPE ACTIVITY REVENUES AND EXPENDITURES

Revenues and expenditures 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), prepaid college tuition programs (Prepaid Tuition Fund), lending to full-time college students (Illinois Designated Account Purchase Program), operating the State Lottery, and administering insurance programs for other governments in the State. The revenues and expenses of each of these activities are presented in the chart below.

The large excess of revenues over expenses for unemployment business-type activities results from the increase in the employer wage base and in rates for unemployment contributions for fiscal year 2006.



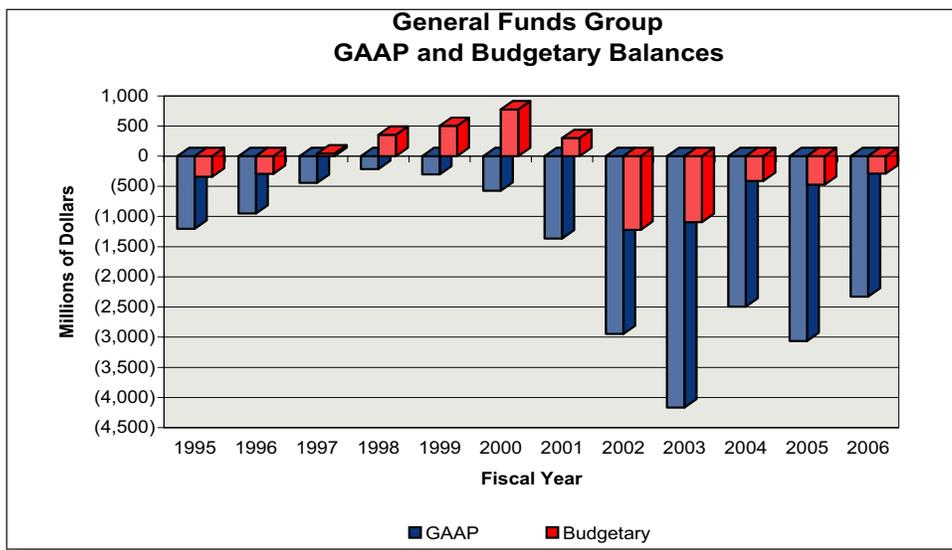
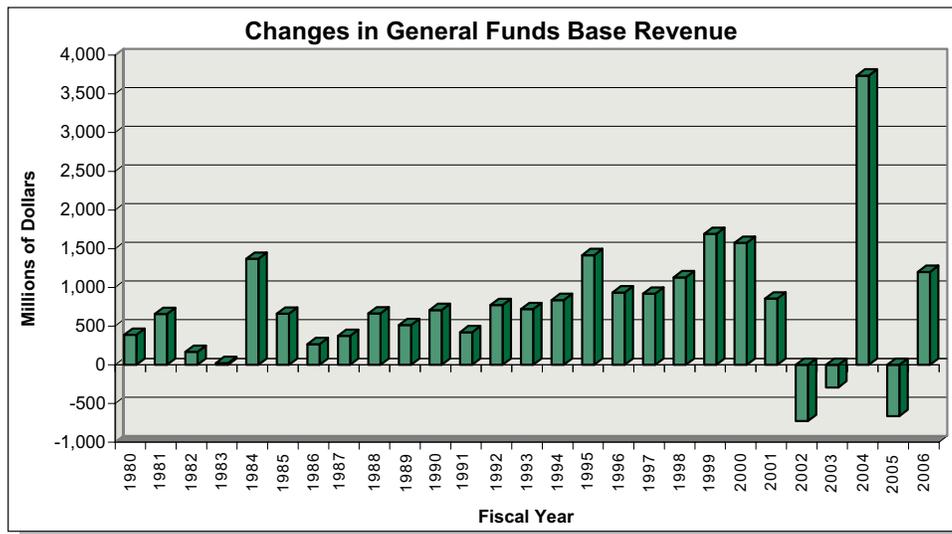
BUDGETARY BASIS

Fiscal Summary

For fiscal year 2006, General Funds base revenues increased \$1.199 billion. Revenues were impacted by an improved economy as the state's largest sources of revenue, income and sales taxes, once again showed significant growth. Base expenditures grew \$938 million for the year. Spending growth was due to the planned increase in Medicaid expenditures in an effort to reduce the backlog including Section 25 liabilities.

Fiscal year 2006 resulted in a modest improvement in the General Funds budgetary balances (measured on a cash basis). The balance increased from a \$474 million deficit in fiscal year 2005 to a \$291 million deficit this year.

The state's General Fund GAAP balance increased from a \$3.064 billion deficit in fiscal year 2005 to a \$2.328 billion deficit in fiscal year 2006.



General Funds Base Revenue- Up 4.6% in Fiscal Year 2006

General Funds revenue grew \$452 million or 1.6% in fiscal year 2006, increasing to \$28.635 billion from \$28.183 billion in fiscal year 2005. Excluding the transfer of \$276 million from the Budget Stabilization Fund and short-term borrowing of \$1.0 billion, base revenues increased \$1.199 billion or 4.6%. The continued strength of the economy, which resulted in a \$1.4 billion increase in income and sales tax receipts, was primarily responsible for the growth in base revenues this year.

State sources increased \$731 million or 3.3% as cash receipts grew \$1.143 billion and transfers in from other funds decreased by \$412 million. Federal sources increased \$468 million or 11.0%.

General Funds increased \$256 million or 21.8%. Corporate income tax receipts were also impacted by a decrease in the percentage allocated to the Income Tax Refund Fund. Total corporate income taxes grew \$236 million or 15.2% as before tax corporate profits nationally increased 24.2% in fiscal year 2006.

Retail sales for the year also reflected the improvement of the economy. Revenues from the state sales tax totaled \$7.092 billion in fiscal year 2006, an increase of \$497 million or 7.5%.

Gaming revenues grew \$43 million or 3.2% to \$1.367 billion for the year. Lottery transfers increased by \$56 million and riverboat gaming revenues decreased by \$9

General Funds Revenue (Millions of Dollars)												Change From FY2005 to FY2006	
	Fiscal Year										Amount	Percent	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006			
Personal Income Tax	\$ 6,139	\$ 6,847	\$ 7,226	\$ 7,686	\$ 7,996	\$ 7,471	\$ 7,341	\$ 7,272	\$ 7,979	\$ 8,635	\$ 656	8.2	%
Corporate Income Tax	1,085	1,136	1,121	1,237	1,036	803	738	936	1,172	1,428	256	21.8	
Sales Taxes	4,992	5,274	5,609	6,027	5,958	6,051	6,059	6,331	6,595	7,092	497	7.5	
Gaming Sources:													
Lottery Fund	590	560	540	515	501	555	540	570	614	670	56	9.1	
Riverboat Gaming	185	170	240	330	460	470	554	663	698	689	(9)	(1.3)	
Miscellaneous	12	11	11	9	7	16	11	13	12	8	(4)	(33.3)	
Total, Gaming	787	741	791	854	968	1,041	1,105	1,246	1,324	1,367	43	3.2	
Public Utility Taxes	873	912	1,019	1,116	1,146	1,104	1,006	1,079	1,056	1,074	18	1.7	
Other Tax Sources	1,400	1,404	1,779	1,924	2,230	2,207	2,007	2,225	2,430	2,295	(135)	(5.6)	
Other Transfers In	309	346	411	514	452	444	890	2,545	1,347	743	(604)	(44.8)	
Base State Sources	\$ 15,585	\$ 16,660	\$ 17,956	\$ 19,358	\$ 19,786	\$ 19,121	\$ 19,146	\$ 21,634	\$ 21,903	\$ 22,634	\$ 731	3.3	%
Federal Sources	3,269	3,324	3,718	3,892	4,320	4,258	3,940	5,189	4,257	4,725	468	11.0	
Total Base Revenue	\$ 18,854	\$ 19,984	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,379	\$ 23,086	\$ 26,823	\$ 26,160	\$ 27,359	\$ 1,199	4.6	%
Transfer from Budget													
Stabilization Fund	0	0	0	0	0	226	226	226	276	276	0	0.0	
Cash Flow Transfer	0	0	0	0	0	0	0	0	982	0	(982)	N/A	
Short-Term Borrowing	0	0	0	0	0	0	1,675	0	765	1,000	235	30.7	
Total Revenue	\$ 18,854	\$ 19,984	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,605	\$ 24,987	\$ 27,049	\$ 28,183	\$ 28,635	\$ 452	1.6	%

Led by another strong economic performance, personal income taxes including deposits into the Refund Fund increased \$696 million or 7.8%. However, with a reduction in the percent of taxes allocated to the Refund Fund, personal income taxes net of refunds grew \$656 million or 8.2% for fiscal year 2006. Over the year, employment in Illinois increased by 59,000 jobs as state personal income grew 5.9%. In addition, the stock market continued to grow. Obviously, these economic factors had a major impact on income tax receipts. Corporate income tax receipts deposited into the

million. Riverboat gambling tax rates reverted to prior lower levels this year with a hold harmless provision. The tax change eliminated the direct deposit of tax receipts into the Common School Fund and reverted back to transfers from the State Gaming Fund.

For fiscal year 2006, public utility taxes increased 1.7% with electric tax receipts \$38 million higher, while telecommunications tax revenues decreased \$12 million and revenues from the natural gas tax were down \$8 million. Gas and electric are consumption-based

General Funds Revenue *concluded*

BUDGETARY BASIS

taxes and grow with increased usage. Telecommunications tax receipts continue to decline due to increased cell phone usage and phone cards.

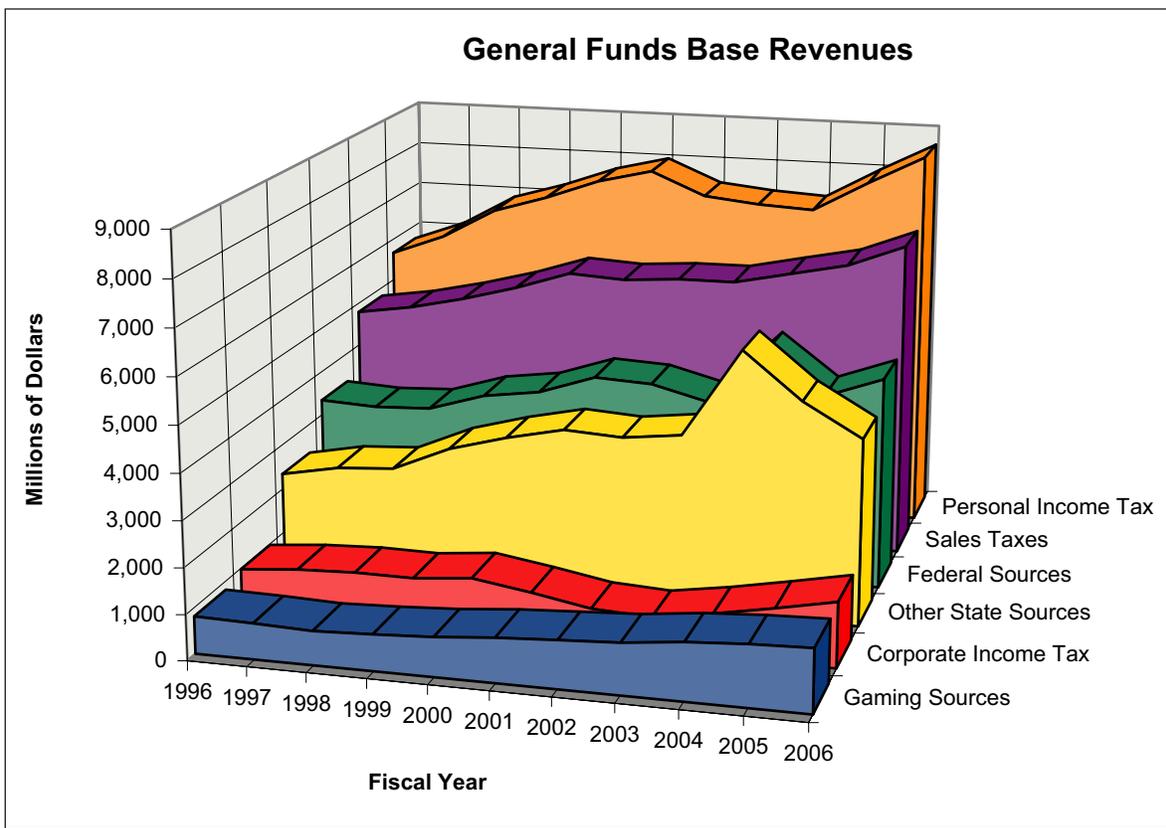
Receipts from other tax sources were down \$135 million or 5.6% for the year. The Cook County intergovernmental transfer agreement was reduced this year with receipts down \$83 million. A temporary reallocation of cigarette taxes last year resulted in a \$50 million decrease to the General Funds this year. Inheritance taxes declined \$38 million due to the settlement of a number of large estates last year. Insurance tax revenues declined again, falling by \$25 million. Investment income increased \$80 million due primarily to higher interest rates and larger balances.

The \$604 million decrease for other transfers in reflects the decline from a \$434 million one-time transfer from the Medicaid Provider Relief Fund last year. This transfer was to help pay for the June 2004 short-term borrowing for Medicaid spending to take advantage of

the higher reimbursement rates in fiscal year 2004. Other major decreases in transfers were from statutory fund sweeps and administrative charges to other funds.

Federal sources increased \$468 million or 11.0% in fiscal year 2006. This increase was driven by the surge in spending on Medicaid this year compared to relatively low spending in fiscal year 2005. Fiscal year 2004 had dramatic growth in spending due to the Federal Jobs and Growth Tax Relief Reconciliation Act and the additional spending on Medicaid from short-term borrowing. This resulted in a reduction in spending in fiscal year 2005.

For fiscal year 2006, income and sales taxes brought in 62.7% of total General Funds base revenues, while federal sources and other sources accounted for 17.3% and 20.0%, respectively. This signifies once again the importance of the economy as the major factor in determining General Funds revenue growth next year.



General Funds Base Spending- Up 3.6% in Fiscal Year 2006

General Funds “base” expenditures for fiscal year 2006, which excludes a \$1.290 billion short-term borrowing repayment, totaled \$27.162 billion, an increase of \$938 million or 3.6% from fiscal year 2005 spending. Spending from the General Funds has increased by an average of \$1.104 billion over the last nine fiscal years. Among the various categories of spending, operations increased by \$96 million, awards and grants increased \$1.470 billion, regular transfers out decreased \$598 million and short term borrowing repayment decreased \$733 million. All other spending decreased \$30 million from the prior year.

For fiscal year 2006, General Funds awards and grants spending totaled \$17.687 billion, \$1.470 billion or 9.1% above fiscal year 2005. The Departments of Healthcare and Family Services (formerly Public Aid), Human Services and the State Board of Education accounted for 85.4% or \$15.104 billion of all General Funds awards and grants in fiscal year 2006. Total

grants accounted for 65.1% of total base spending from the General Funds for the fiscal year, up from 61.8% last fiscal year.

Prior to fiscal year 1998, the largest grant spending agency had been the Department of Healthcare and Family Services (DHFS). However, due to reorganization in the delivery of social services, DHFS became the second largest grant spending agency behind the State Board of Education. Due to rapidly increasing medical costs and program expansions, DHFS once again became the largest grant spending agency from the General Funds in fiscal year 2001. Healthcare and Family Service’s distinction as the largest grant spending agency lasted only one year, however, as a continuing emphasis on elementary and secondary education, along with the transfer of some Medicaid programs to other funds, vaulted the State Board of Education back to the top in both fiscal years 2002 and 2003. For fiscal year 2004, DHFS was once again the highest spend-

General Funds Expenditures (From Current Year Appropriations) By Category and Major Agency (Millions of Dollars)												
	Fiscal Year										Change from FY 2005 to FY 2006	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Amount	Percent
Operations:												
Higher Education	\$ 1,308	\$ 1,392	\$ 1,478	\$ 1,574	\$ 1,662	\$ 1,765	\$ 1,660	\$ 1,545	\$ 1,432	\$ 1,401	\$ (31)	(2.2) %
Corrections	832	908	1,019	1,095	1,168	1,222	1,149	1,154	1,187	1,156	(31)	(2.6)
Healthcare and Family Services (Public Aid)	455	102	113	208	126	166	154	143	128	1,137	1,009	788.3
Human Services	0	958	1,008	1,015	1,067	1,101	998	962	949	931	(18)	(1.9)
Children and Family Services	254	261	273	285	286	298	284	274	257	269	12	4.7
Central Management Services	475	515	560	645	698	733	818	1,026	977	92	(885)	(90.6)
Mental Health	546	0	0	0	0	0	0	0	0	0	0	0.0
Other Operations	1,245	1,183	1,276	1,476	1,623	1,671	1,403	1,330	1,373	1,413	40	2.9
Total, Operations	\$ 5,115	\$ 5,319	\$ 5,727	\$ 6,298	\$ 6,630	\$ 6,956	\$ 6,466	\$ 6,434	\$ 6,303	\$ 6,399	\$ 96	1.5 %
Awards and Grants:												
State Board of Education:												
Apportionment	\$ 2,378	\$ 2,471	\$ 2,922	\$ 2,983	\$ 2,995	\$ 3,232	\$ 3,142	\$ 3,446	\$ 3,682	\$ 3,896	\$ 214	5.8 %
Other	1,283	1,562	1,477	1,716	1,885	1,864	1,919	1,927	2,036	2,119	83	4.1
Total, State Board of Education	3,661	4,033	4,399	4,699	4,880	5,096	5,061	5,373	5,718	6,015	297	5.2
Healthcare and Family Services (Public Aid):												
Medical Assistance	3,668	3,887	4,239	4,695	5,192	4,986	4,945	5,546	4,861	6,205	1,344	27.6
Aid to Families with Dependent Children	878	0	0	0	0	0	0	0	0	0	0	0.0
Other	140	0	0	0	0	0	0	0	0	0	0	0.0
Total, Public Aid	4,686	3,887	4,239	4,695	5,192	4,986	4,945	5,546	4,861	6,205	1,344	27.6
Human Services	0	2,287	2,392	2,420	2,660	2,566	2,504	2,631	2,797	2,884	87	3.1
Teachers Retirement	354	429	584	649	732	821	931	739	938	609	(329)	(35.1)
Higher Education	638	670	730	758	807	872	811	763	775	787	12	1.5
Children and Family Services	689	660	616	635	634	607	540	521	497	534	37	7.4
Aging	142	159	182	202	220	227	230	244	269	296	27	10.0
Mental Health	893	0	0	0	0	0	0	0	0	0	0	0.0
Alcoholism and Substance Abuse	97	0	0	0	0	0	0	0	0	0	0	0.0
Other Awards and Grants	549	425	507	509	551	556	378	390	362	357	(5)	(1.4)
Total, Awards and Grants	\$ 11,709	\$ 12,550	\$ 13,649	\$ 14,567	\$ 15,676	\$ 15,731	\$ 15,400	\$ 16,207	\$ 16,217	\$ 17,687	\$ 1,470	9.1 %
Other General Funds Warrants Issued	27	35	45	82	60	53	28	-11	47	17	(30)	(63.8)
Total, General Funds Warrants Issued	\$ 16,851	\$ 17,904	\$ 19,421	\$ 20,947	\$ 22,366	\$ 22,740	\$ 21,894	\$ 22,630	\$ 22,567	\$ 24,103	\$ 1,536	6.8 %
Regular Transfers Out	1,666	1,768	2,106	2,029	2,217	2,159	2,031	2,519	3,657	3,059	(598)	(16.4)
Base General Funds Expenditures	\$ 18,517	\$ 19,672	\$ 21,527	\$ 22,976	\$ 24,583	\$ 24,899	\$ 23,925	\$ 25,149	\$ 26,224	\$ 27,162	\$ 938	3.6 %
Short-Term Borrowing Repayment	0	0	0	0	0	226	936	1,216	2,023	1,290	(733)	(36.2)
Total, General Funds Expenditures	\$ 18,517	\$ 19,672	\$ 21,527	\$ 22,976	\$ 24,583	\$ 25,125	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452	\$ 205	0.7 %

General Funds “Base” Spending *concluded*

ing grant agency as short-term borrowing pushed spending that would have occurred in fiscal year 2005 back to fiscal year 2004. Reduced appropriations for 2005 put elementary and secondary education far ahead of DHFS spending. However, in fiscal year 2006, DHFS’ grant spending increased by \$1.344 billion or 27.6% to \$6.205 billion and once again made it the largest spending grant agency.

State Board grant spending of \$6.015 billion in fiscal year 2006 is \$297 million or 5.2% higher than fiscal year 2005 and accounts for 34.0% of total General Funds grant spending. General state aid to school districts accounts for the largest portion (64.8%) of State Board grant spending with \$3.896 billion expended in 2006. Slightly more than 72.0% (\$214 million) of the \$297 million increase in State Board grants spending was dedicated to general state aid.

In 1998, the Department of Human Services consolidated all or parts of six state social service agencies with the goal of achieving a more efficient and effective delivery of social services in Illinois. Merged in whole into Human Services were the Departments of Mental Health, Alcoholism and Substance Abuse, and Rehabilitation Services while components of the Departments of Children and Family Services, Public Health, and Public Aid were also merged. In the ninth year of operation for the Department, grant spending totaled \$2.884 billion, \$87 million or 3.1% above 2005.

Two other sectors of government education spending garner a significant amount of General Funds grant dollars. Grant spending for teachers’ retirement of \$609 million in fiscal year 2006 represented an decrease of \$329 million or 35.1% from the prior year. Legislation reduced statutory pension requirements for fiscal years 2006 and 2007. Higher education had awards and grants spending of \$787 million in fiscal year 2006, \$12 million or 1.5% higher than fiscal year 2005. Altogether, education grant spending from the General Funds in fiscal year 2006 totaled \$7.411 billion, down \$20 million or 0.3% from the previous year.

Spending for operations from the General Funds in fiscal year 2006 totaled \$6.399 billion, \$96 million or

1.5% higher than fiscal year 2005. Operations accounted for 23.6% of total General Funds base expenditures in 2006.

Higher education institutions accounted for the largest amount of spending for operations. In fiscal year 2006, higher education operations expenditures of \$1.401 billion were \$31 million or 2.2% lower than fiscal year 2005 and accounted for 21.9% of total operations. Illinois’ flagship university, the University of Illinois, accounted for \$682 million or 48.7% of higher education operations in fiscal year 2006.

The largest state agency in terms of operations expenditures from the General Funds and the second largest in terms of employee headcount is the Department of Corrections. Fiscal year 2006 expenditures by the Department for operations totaled \$1.156 billion, \$31 million or 2.6% lower than the previous year. The number of employees at Corrections totaled 13,695 at the end of fiscal year 2006, down 308 or 2.2% from 14,003 at the end of fiscal year 2005.

Prior to fiscal year 2006, group insurance contributions to pay for the health benefits of state employees had been paid out of the Department of Central Management Services budget. However, in fiscal year 2006, this responsibility was shifted to the Department of Healthcare and Family Services. As a result, DHFS had operations spending of \$1.137 billion in fiscal year 2006 with \$1.004 billion of that total for group insurance. The \$1.004 billion expended for group insurance was \$70 million or 7.5% higher than the \$934 million spent in the previous fiscal year.

With the largest headcount of any single state agency, the Department of Human Services recorded operations expenditures of \$931 million in fiscal year 2006, down \$18 million or 1.9%. At the end of the fiscal year the Department’s employee headcount was 14,857, an increase of 347 or 2.4% from the previous year.

Regular transfers out of \$3.059 billion in fiscal year 2006 decreased by \$598 million or 16.4% from the previous year.

Fiscal Climate Fiscal Year 2006

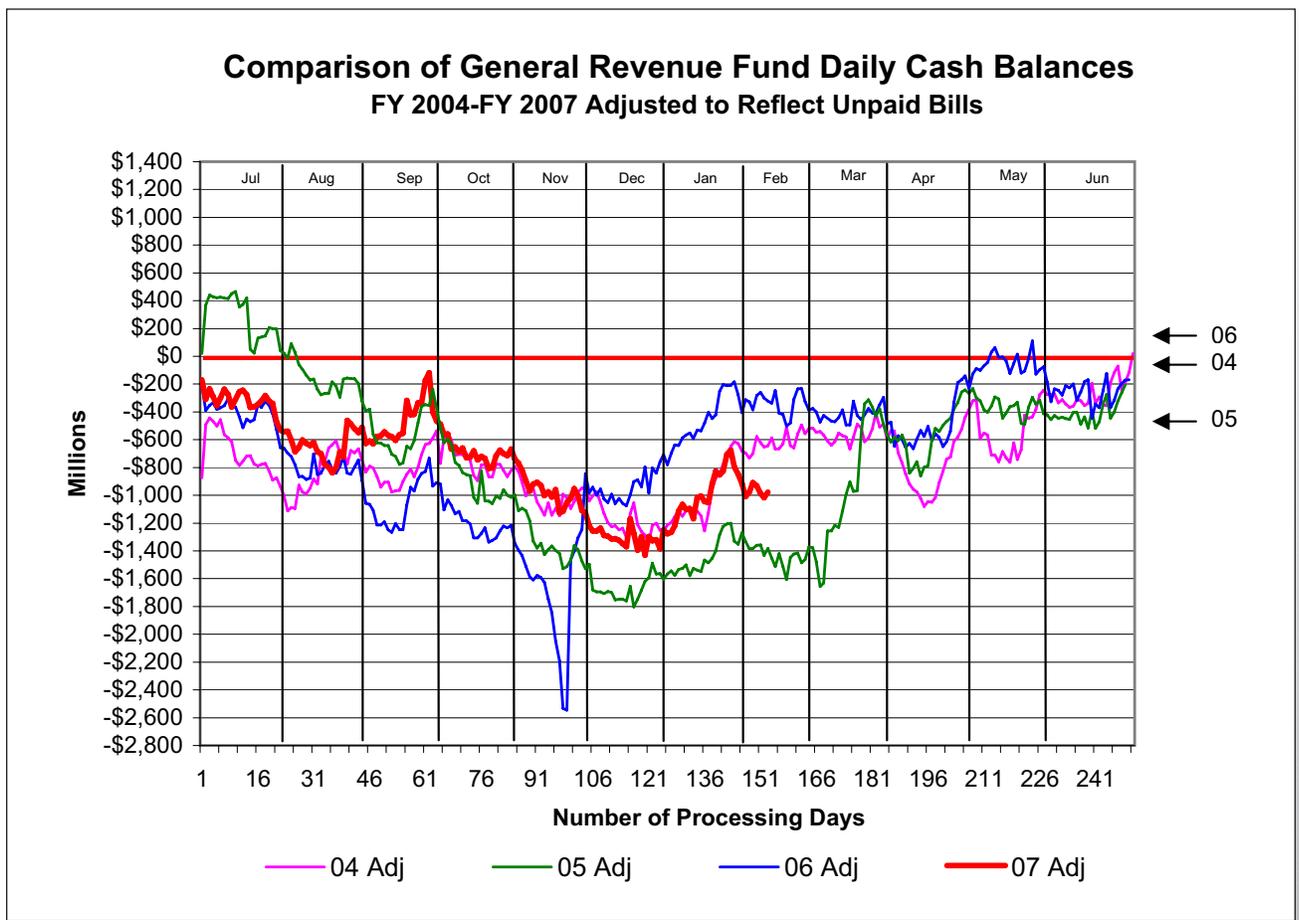
The General Funds began the fiscal year in difficult circumstances. In addition to a backlog of \$405 million in unpaid bills and payment delays of 30 days at the Comptroller's Office, there were pending Medicaid obligations of more than \$1.5 billion at the Department of Healthcare and Family Services. To help alleviate the financial difficulties, pension payments were restructured which reduced pension funding by approximately \$1 billion for the current year and for fiscal year 2007.

With a weak cash position to start the year and Medicaid spending growing from the reduced levels in the prior year, serious cash flow issues were inevitable. This combination resulted in a rapid deterioration in the state's cash flow position as evidenced in the graph. By November 20, the backlog of bills grew to \$2.788 billion and payment delays reached 37 days. However that backlog was, to an extent, artificially inflated in anticipation of short-term borrowing. Before the end of the month, the

state issued \$1 billion in short-term General Obligation Certificates.

General Funds Medicaid appropriations to the Department of Healthcare and Family Services were up \$1.3 billion for fiscal year 2006. Proceeds from the November borrowing were dedicated to the backlog of unpaid Medicaid claims in order to generate federal matching reimbursements with those receipts applied to the remaining backlog of payables. By the end of December, the cash backlog was reduced to \$906 million and payment delays dropped to 21 business days.

Growth in the backlog and payment delays resumed and accelerated in March with the repayment of the short-term borrowing. However, continued strength in economic revenues had a positive impact on cash management and by early May the adjusted General Revenue Fund (GRF) balance was positive.



BUDGETARY BASIS

Fiscal Climate *continued*

By the end of fiscal year 2006, the state's cash position had improved from the prior fiscal year. Unpaid bills on hand totaled \$234 million and payment delays were down to less than a week. Lapse period spending decreased from \$971 million to \$881 million and the budgetary balance improved from a negative \$474 million to a negative \$291 million. This improvement was in the funds related to education, as the GRF budgetary balance actually deteriorated slightly from a negative \$773 million to a negative \$802 million.

Section 25 of the State Finance Act provides the timeline for paying the state's liabilities and allows for the deferral of certain payments, primarily Medicaid, to the next fiscal year. Section 25 liabilities decreased in fiscal year 2006, from \$2.949 billion to \$2.385 billion. Of this amount, GRF Section 25 liabilities decreased \$220 million from \$2.134 billion to \$1.914 billion in fiscal year 2006. Section 25 liabilities are of concern because of the relationship between changes in those deferrals and changes in the General Fund GAAP financial position. The

decrease in the fiscal year 2006 GAAP deficit is due primarily to the decline in Section 25 deferrals.

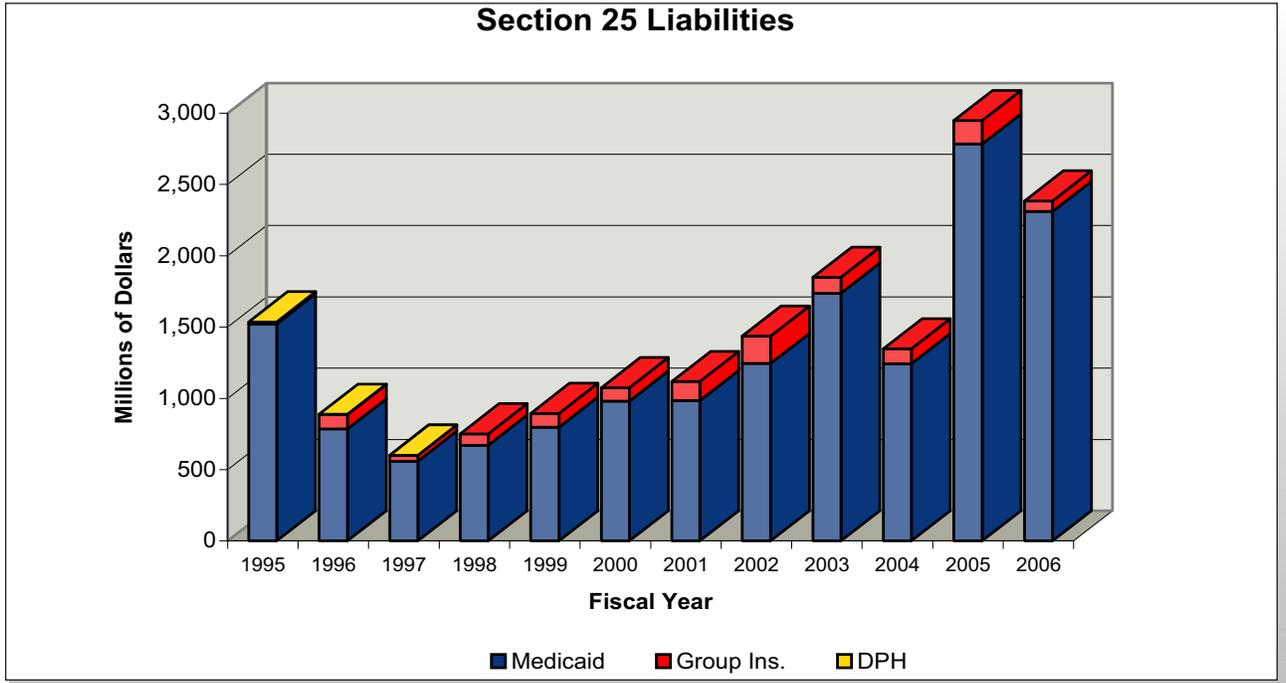
A Look at Fiscal Year 2007

Fiscal year 2007 began with minor cash flow difficulties. A backlog of unpaid bills totaling \$234 million, reduced lapse period spending and unexpected economic revenue growth painted a promising picture. Nevertheless, even with a \$1 billion reduction in pension funding due to the pension payment restructuring, General Funds appropriations are over \$1.2 billion higher. Economy driven revenue growth began to slow, as projected, with sales tax receipts experiencing the most sluggish growth. Consequently, the structural imbalance between revenues and expenditures once again had a serious impact on cash flow. The backlog of unpaid bills, as seen in the chart on page 17, has followed the pattern from previous years and increased to approximately \$1.3 billion by mid-December. Payment delays also increased from less than a week to around 25 days.

**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
1990	(557)	(483)	(191)	(339)	(242)	(249)
1991	(1,368)	(811)	(666)	(475)	(702)	(460)
1992	(1,656)	(288)	(887)	(221)	(828)	(126)
1993	(1,916)	(260)	(630)	257	(607)	221
1994	(1,595)	321	(422)	208	(447)	160
1995	(1,204)	391	(341)	81	(354)	93
1996	(952)	252	(292)	49	(299)	55
1997	(443)	509	45	337	106	405
1998	(213)	230	356	311	281	175
1999	(303)	(90)	503	147	184	(97)
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	(4,166)	(1,218)	(1,094)	126	(1,409)	61
2004	(2,495)	1,671	(410)	684	(569)	840
2005	(3,064)	(569)	(474)	(64)	(773)	(204)
2006	(2,328)	736	(291)	183	(802)	(29)

By the end of January, base revenues had shown over 3.0 % aggregate growth. A 7.1 % increase in state revenues was partially offset by an 11.7 % decrease in federal sources. The drop in Medicaid spending was primarily responsible for the decline in federal revenues. Fiscal year 2007 appropriations for Medicaid are \$222 million higher; therefore this decline is likely to be reversed.



Based on current expectations, the state may end fiscal year 2007 with another modest improvement in the cash flow position of the General Funds. Persistent problems will continue to impact the future. Resumption of actuarially-required increases in pension payments and increased spending pressures for healthcare and education could easily

account for more than economic revenue growth will provide. Cash flow difficulties and payment delays for the General Funds likely will persist through fiscal year 2007 and into fiscal year 2008. Absent any changes in revenue and spending patterns, the state financial structure will continue to face substantial challenges.

