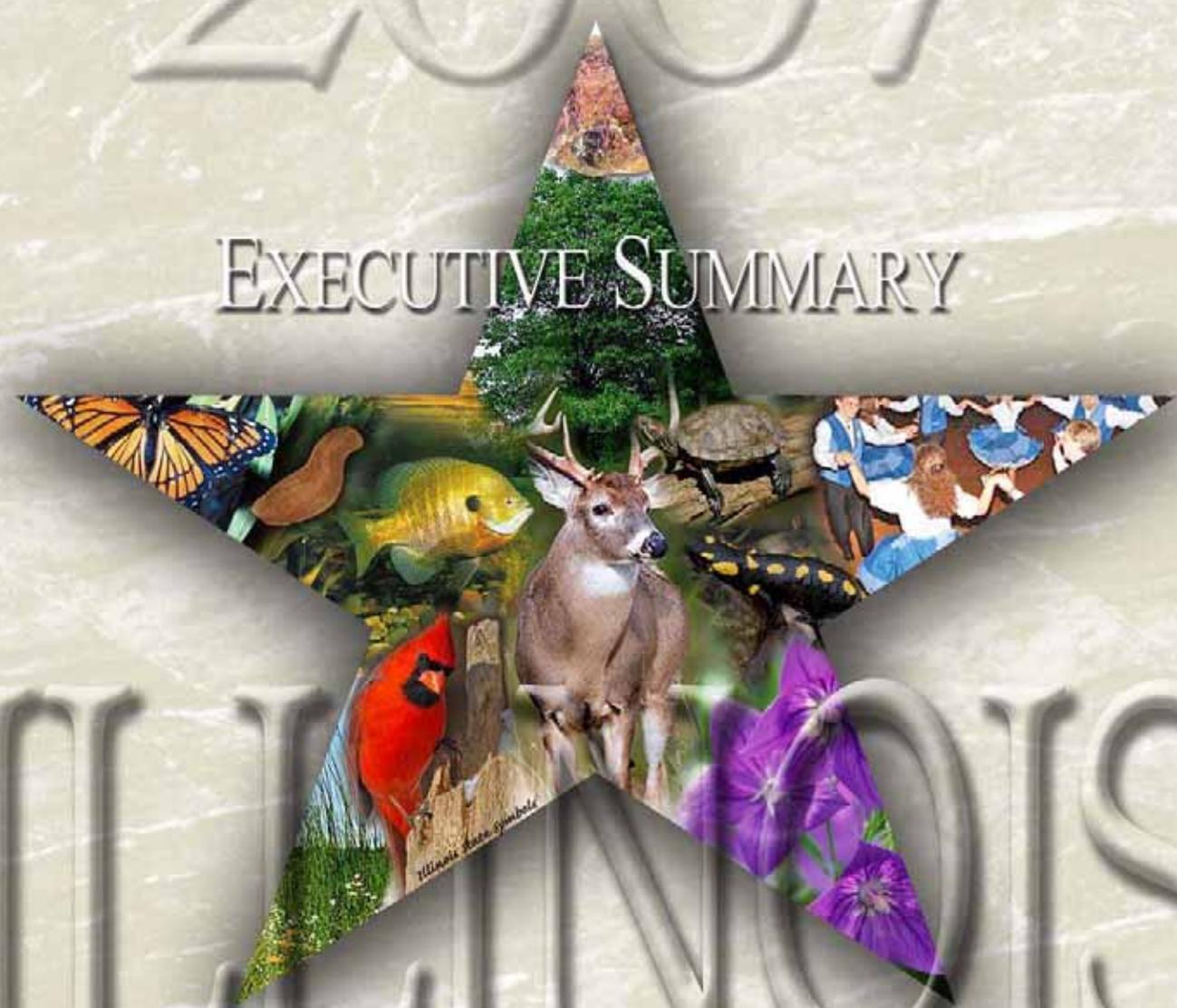


2007

FISCAL YEAR ENDED JUNE 30, 2007

EXECUTIVE SUMMARY



ILLINOIS

DANIEL W. HYNES
COMPTROLLER

www.ioc.state.il.us



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.



ON THE COVER: *Illinois State Symbols*

State Bird-Cardinal, State Reptile-Painted Turtle, State Soil-Drummer Silty Clay Loam,
State Amphibian-Eastern Tiger Salamander, State Dance-Square Dance, State Prairie Grass-Big
Bluestem, State Mineral-Fluorite, State Fish-Bluegill, State Tree-White Oak, State Flower-Violet,
State Insect-Monarch Butterfly, State Fossil-Tully Monster, State Animal-White Tailed Deer



June, 2008

A Message to Illinois Taxpayers

The mission and priorities of my administration include providing taxpayers with useful and understandable information about the fiscal condition 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 highlights that after one year of improvement, the General Fund GAAP balance has decreased again. The state ended fiscal year 2007 with a negative General Fund balance of \$3.828 billion indicating that the state's GAAP deficit grew by \$858 million compared to the prior year. However, the cash position improved as the budgetary balance increased by \$156 million, from a deficit of \$291 million to a deficit of \$135 million.

Section 25 liabilities increased in fiscal year 2007, standing at \$3.368 billion as of June 30, 2007, and contributing to the decrease in the GAAP balance.

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
State Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

State of Illinois

for the Fiscal Year Ended

June 30, 2006



Charles S. Cox
President

Jeffrey L. Esser
Executive Director

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Printed by Authority of the State of Illinois
By the State of Illinois
6/2008 - 300 Job NO. 40261
Cost per Copy \$2.22



Capitol rotunda and dome, courtesy of Heather Bradley, Photographer, Communications Department, Illinois Secretary of State.



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 12.9 million inhabitants live in urban areas, although there is a strong rural presence in the state as well. Nearly one-fourth or approximately 2.8 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 twenty 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-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 are twenty major departments 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 in the executive branch oversee their respective agencies. State government agencies combined directly employed a total of 72,312 persons at the end of fiscal year 2007, just 591 less than one year earlier. The Departments of Human Services (14,485), Corrections (11,974) and Transportation (6,612) account for nearly half of all direct government employees.

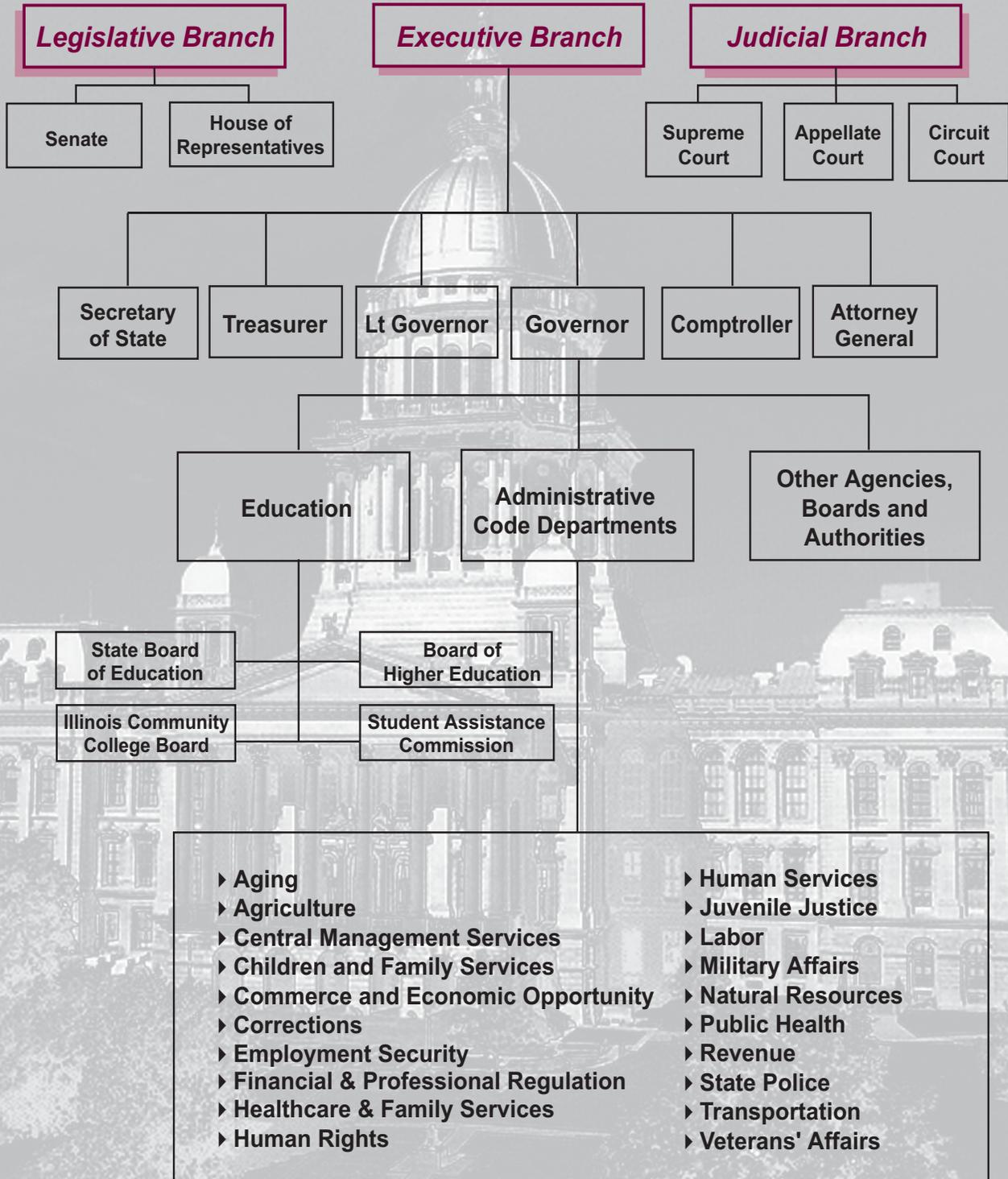
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 871 school districts and 3,888 schools. In fiscal year 2007, about 2.1 million public school children were instructed by just over 162,000 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 2007 fiscal year, approximately 553,000 students were enrolled in Illinois' public colleges and universities, and about 252,000 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 Service's Division of Medical Programs administers the state's Medicaid and All Kids programs with more than 2.1 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 2007 was \$94.3 billion or approximately \$7,309 for every person in Illinois. Total state revenues for the year were \$94.4 billion with income taxes (\$14.0 billion), federal revenues (\$13.1 billion), and sales taxes (\$11.0 billion) as the largest sources. The largest functions of spending included General Government (\$41.2 billion), Health and Social Services (\$22.9 billion), and Education (\$15.3 billion).

ELECTORATE



Economic Outlook

Fiscal Year 2007

Economic growth continued at a steady pace in Illinois during fiscal year 2007. The average Illinois unemployment rate decreased from 5.1% in fiscal year 2006 to 4.5% for 2007, the lowest Illinois average unemployment rate since fiscal year 1999. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.961 million workers in fiscal year 2007 an increase of 60,000 jobs or 1.0% above 2006 employment, but 84,000 jobs or 1.4% below peak employment of 6.045 million jobs in fiscal 2001.

A second Illinois employment estimate, obtained through a household survey, showed a somewhat greater increase in Illinois employment. According to this survey, an average of 6.372 million Illinoisans were employed in fiscal year 2007, up 178,000 or 2.9% from the prior year's employment level.

The shift in Illinois employment from the manufacturing to the service sector continued in fiscal year 2007. Average fiscal year 2007 manufacturing employment of 681,000 jobs was down 4,000 jobs or 0.6% from fiscal year 2006 and down 226,000 jobs or 24.9% from the cyclical peak manufacturing employment of 907,000 jobs during fiscal year 1998.

A more comprehensive measure of Illinois' economic performance is the change in state personal income adjusted for inflation. This value increased 3.2% in fiscal year 2007 as a 5.9% increase in nominal personal income was offset by a 2.6% increase in the consumer price index. State personal income adjusted for inflation had increased 1.3% in fiscal year 2004, 1.1% in fiscal year 2005, and 1.1% in fiscal year 2006.

Fiscal Year 2008 and Beyond

The economy was expected to slow during fiscal year 2008 as a weakening housing sector and higher energy prices hindered economic growth. The economic stimulus initiatives offered by the federal government may have mitigated or postponed any expected downturn, but the outlook for significant revenue growth in fiscal year 2009 is at best cautious if not pessimistic. Home to 33 of the Fortune 500 companies, Illinois is tightly integrated into the international economy. With exports

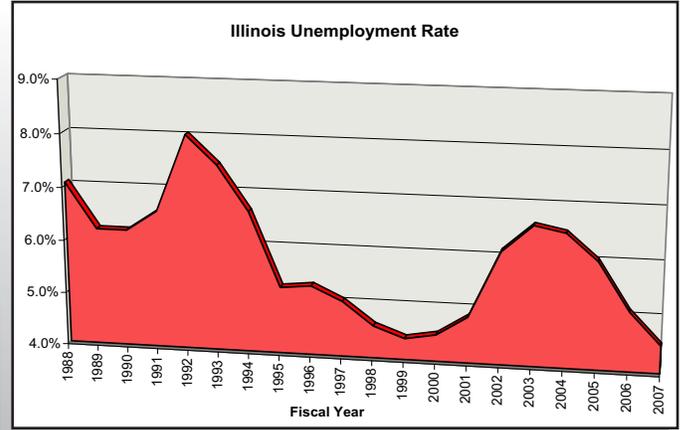
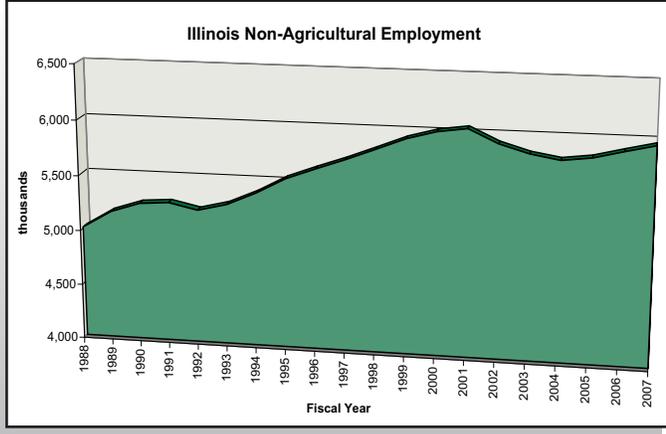
of \$42.1 billion in calendar 2006, Illinois ranked 5th highest among the states including a number 4 ranking for agricultural exports. To thrive in such a competitive climate, Illinois is maintaining superior transportation and communication infrastructures, providing educational and training opportunities 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 2006, 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.

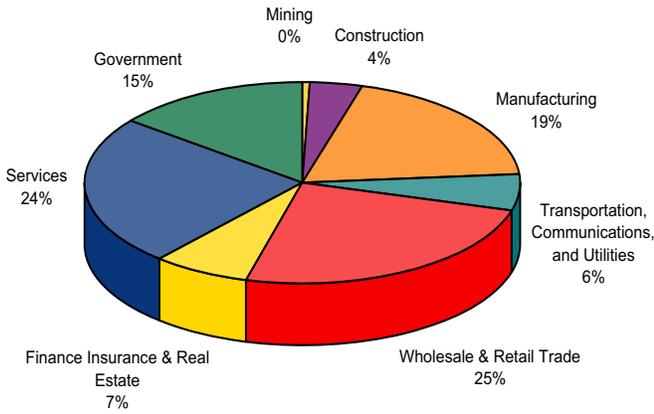
Illinois' educational resources include private universities such as the University of Chicago and Northwestern University, as well as the twelve-campus public system. In fiscal year 2007, Illinois private institutions served 252,000 students with another 203,000 served by the public universities. A statewide system of community colleges (351,000 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.

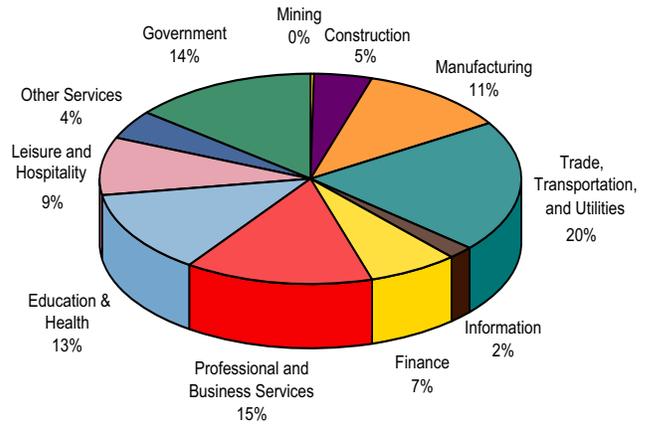
Year-End Economic Summary



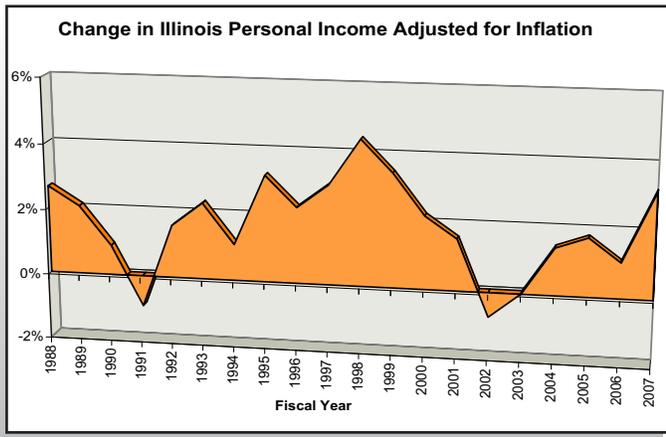
**Illinois Employment by Industry
Fiscal Year 1988**



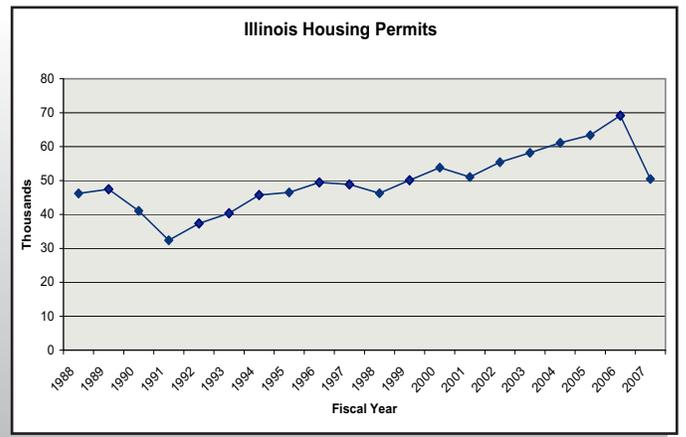
**Illinois Employment by Industry
Fiscal Year 2007**



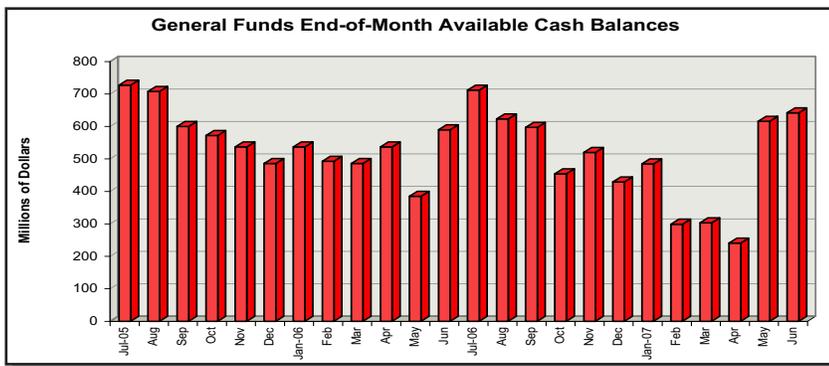
Change in Illinois Personal Income Adjusted for Inflation



Illinois Housing Permits



Year-End Fiscal Summary



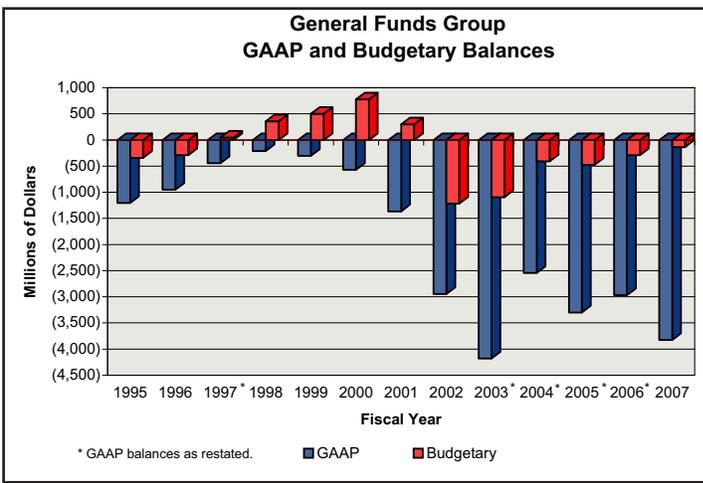
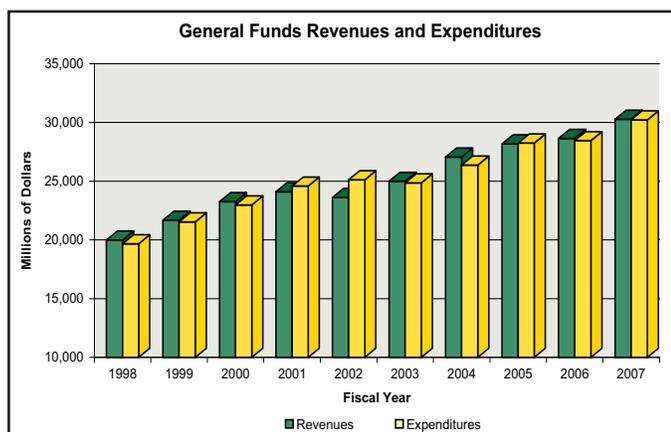
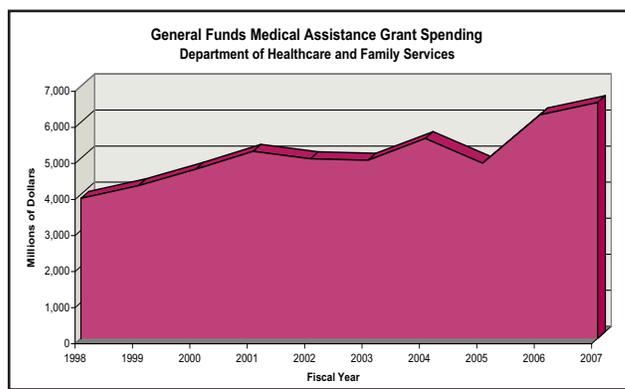
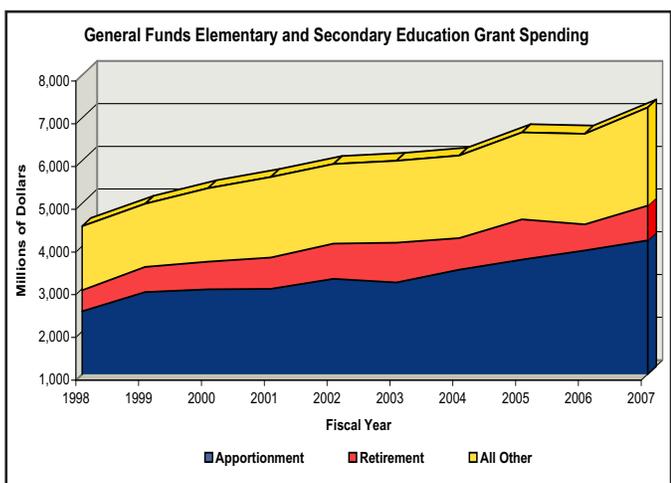
Taxes Receivable			
(in millions)	6/30/06	6/30/07	Change
Gross Balance	\$2,565	\$3,337	\$772
Uncollectibles	\$757	\$704	(\$53)

Major Unfunded and Long Term Liabilities		
(in millions)	FY 2006	FY 2007
Net Pension Obligation	\$ 14,499	\$ 17,091
General Obligation Bonds	\$ 20,965	\$ 20,581
Build Illinois and Civic Center Bonds	\$ 2,539	\$ 2,399

G.O. Bond Rating	
Moody's	Aa3
S&P	AA

Section 25 Liabilities			
(in millions)	6/30/06	6/30/07	Change
Liabilities	\$2,347	\$3,368	\$1,021

General Funds Fiscal Activity			
(in millions)	FY 2006	FY 2007	Change
Beginning Balance	\$ 497	\$ 590	\$ 93
Revenues	\$ 28,635	\$ 30,272	\$ 1,637
Expenditures	\$ 28,542	\$ 30,220	\$ 1,678
Ending Balance	\$ 590	\$ 642	\$ 52
Lapse Period Warrants	\$ 881	\$ 777	(\$104)
Budgetary Balance	\$ (291)	\$ (135)	\$ 156



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* (CAFR) utilizing the total column of the primary government.

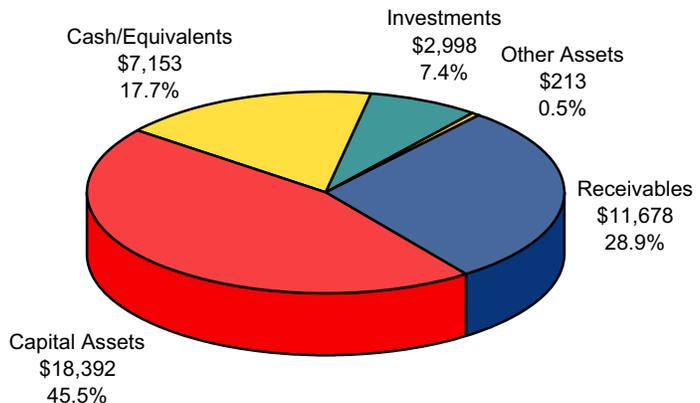
ASSETS

Total assets of the State of Illinois at June 30, 2007, were approximately \$40.4 billion, an increase of \$1.9 billion from June 30, 2006. Capital assets, which include items such as land, buildings, equipment and infrastructure, comprised \$18.4 billion or 46% of the state's total assets.

LIABILITIES

Total liabilities of the state were approximately \$56.4 billion at June 30, 2007, an increase of \$2.9 billion from June 30, 2006. The state's largest liability balances are the net pension obligation of \$17.1 billion and the general and special obligation debt liability of \$23.0 billion.

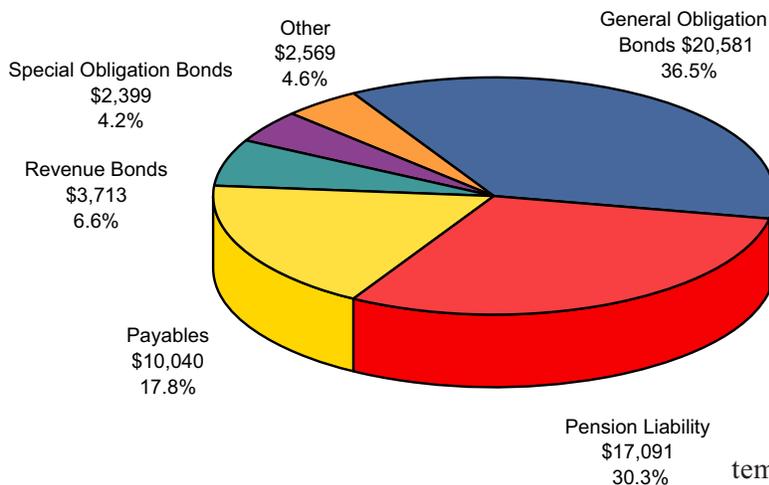
Total Assets (Primary Government)
June 30, 2007
Millions of Dollars



Net Pension Obligation

The net pension obligation at June 30, 2007, for the state's five pension trust funds was \$17.1 billion, an increase of approximately \$2.6 billion from June 30, 2006. 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.

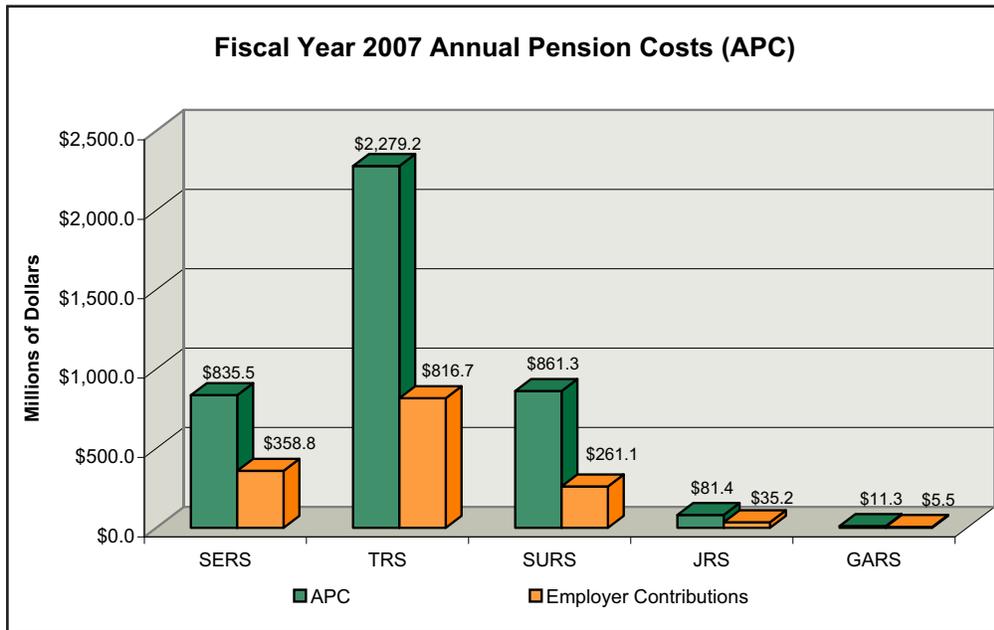
Total Liabilities (Primary Government)
June 30, 2007
Millions of Dollars



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 pro-

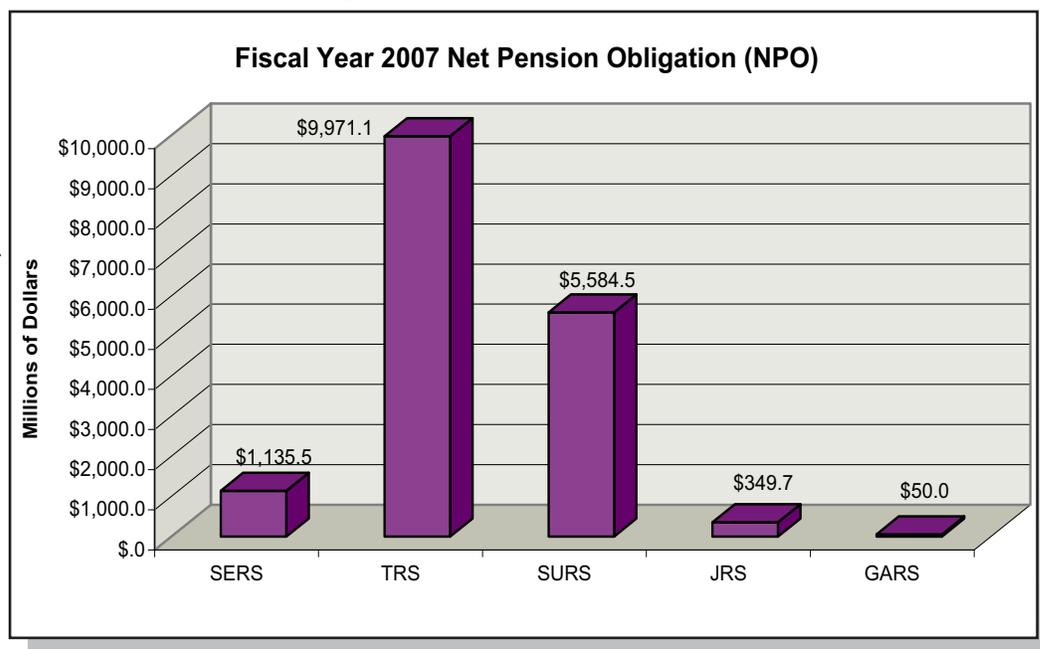
Liabilities



vides for a 15-year phase-in period 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, 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.

Actual contributions varied slightly from contributions required by statute mainly because of differences 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, contributions to the Teachers' Health Insurance Security Fund can reduce required contributions to the 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 27 accounting parameters. The state's APC for the current year and related information for each plan are included in the chart.

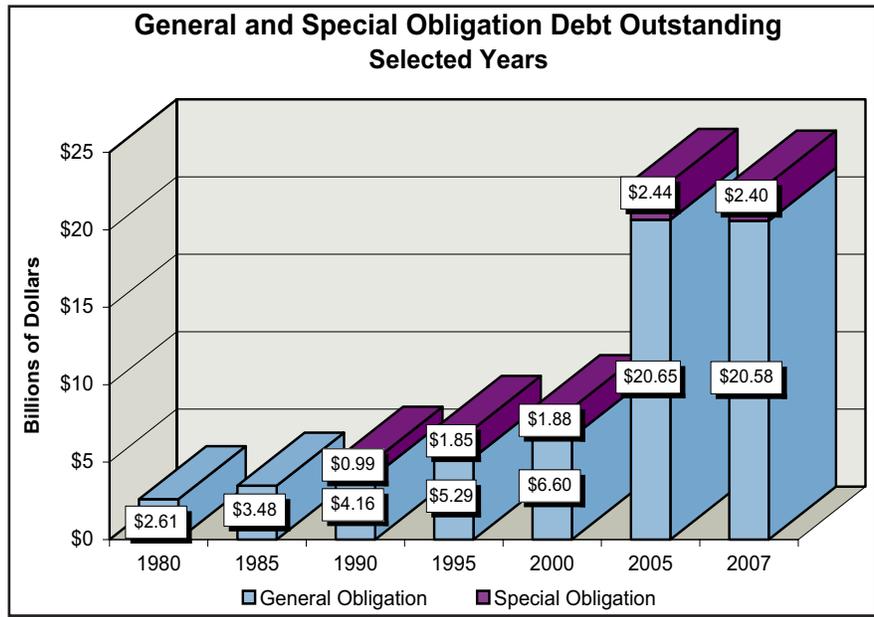


Bonds/Debt

GAAP BASIS

General and Special Obligation Bonds

General obligation bonds, excluding refunding bonds, aggregating \$258 million, were issued during fiscal year 2007 at average interest rates ranging from 4.25% to 5.0%. There were no special obligation bonds issued during fiscal year 2007. 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.



Debt Administration

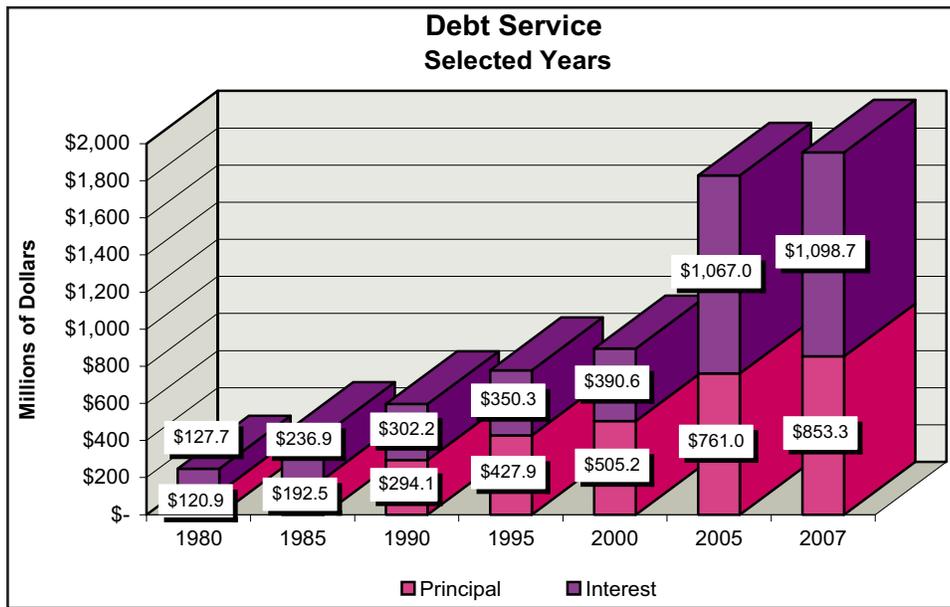
The state's general obligation bond ratings are as follows: Moody's Investors Service-"Aa3", Standard & Poor's Corporation (S & P)-"AA", and Fitch Ratings-"AA". Special obligation bond ratings for Build Illinois Bonds were the same as general obligation bond ratings for Moody's Investors Service and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

Debt service principal and interest costs of \$853.3 million and \$1.1 billion, respectively, were paid in fiscal year 2007 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 below.

NET ASSETS

Net assets are reported as the difference in the state's non-fiduciary assets and liabilities. When examined



over time, increases or decreases in net assets measure whether the state's financial position is improving or deteriorating. Illinois' net assets were (\$16.0) billion at June 30, 2007. This represents a \$979 million decrease compared to the (\$15.0) billion in the previous fiscal year. The state has \$13.4 billion of net assets invested in capital assets (net of related debt), \$5.4 billion of restricted net assets, and (\$34.8) billion of unrestricted net assets.

Governmental Activity Revenues

GOVERNMENTAL FUND REVENUES

The governmental activities of the state are presented on the modified accrual basis of accounting 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.*

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 2007 for governmental funds are as follows.

Fiscal year 2007 governmental funds revenues increased by \$3.0 billion (7%) over fiscal year 2006 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 2007, increasing \$2.4 billion (9%), and comprised nearly 60% of total state revenues.

Income Taxes

Income tax revenues for fiscal year 2007 were \$12.6 billion which is a \$1.3 billion (12%) increase from fiscal year 2006 income tax revenues of \$11.3 billion. The increase is generally the result of an increase in the economy.

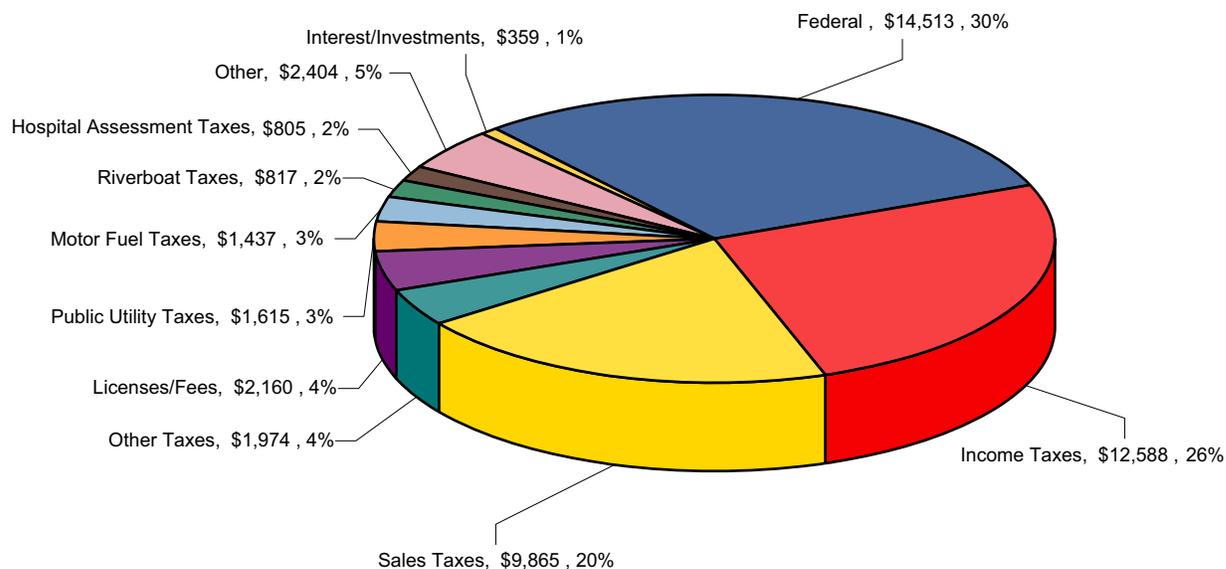
Sales Taxes

Sales taxes remained the second largest tax revenue source for fiscal year 2007 increasing \$275 million from fiscal year 2006.

Federal Government Revenues

Federal government revenues increased \$801 million from \$13.7 billion in fiscal year 2006 to \$14.5 billion in fiscal year 2007, and continued as the second largest overall revenue source behind taxes for the state's governmental funds.

Fiscal Year 2007 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 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

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 \$51.0 billion in fiscal year 2007 increased \$5.5 billion (12%) from 2006 and were \$2.5 billion more than revenues on a GAAP basis.

Health and Social Services Expenditures

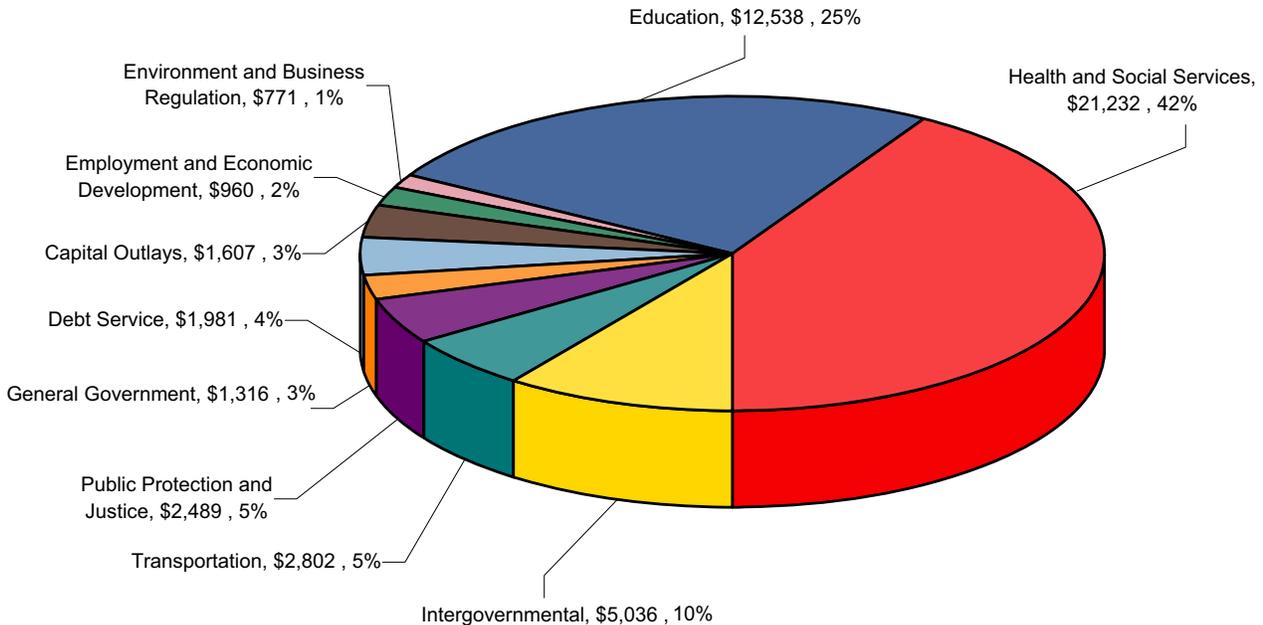
Health and social services expenditures of \$21.2 billion were the largest expenditure function for fiscal

year 2007, increasing by \$2.8 billion (15%) over fiscal year 2006. This expenditure function is 42% 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 2007. Education expenditures increased \$798 million from fiscal year 2006 on a GAAP basis and comprise 25% of total governmental expenditures.

Fiscal Year 2007 Governmental Fund Expenditures
Millions of Dollars



GAAP BASIS

Business-Type Activities

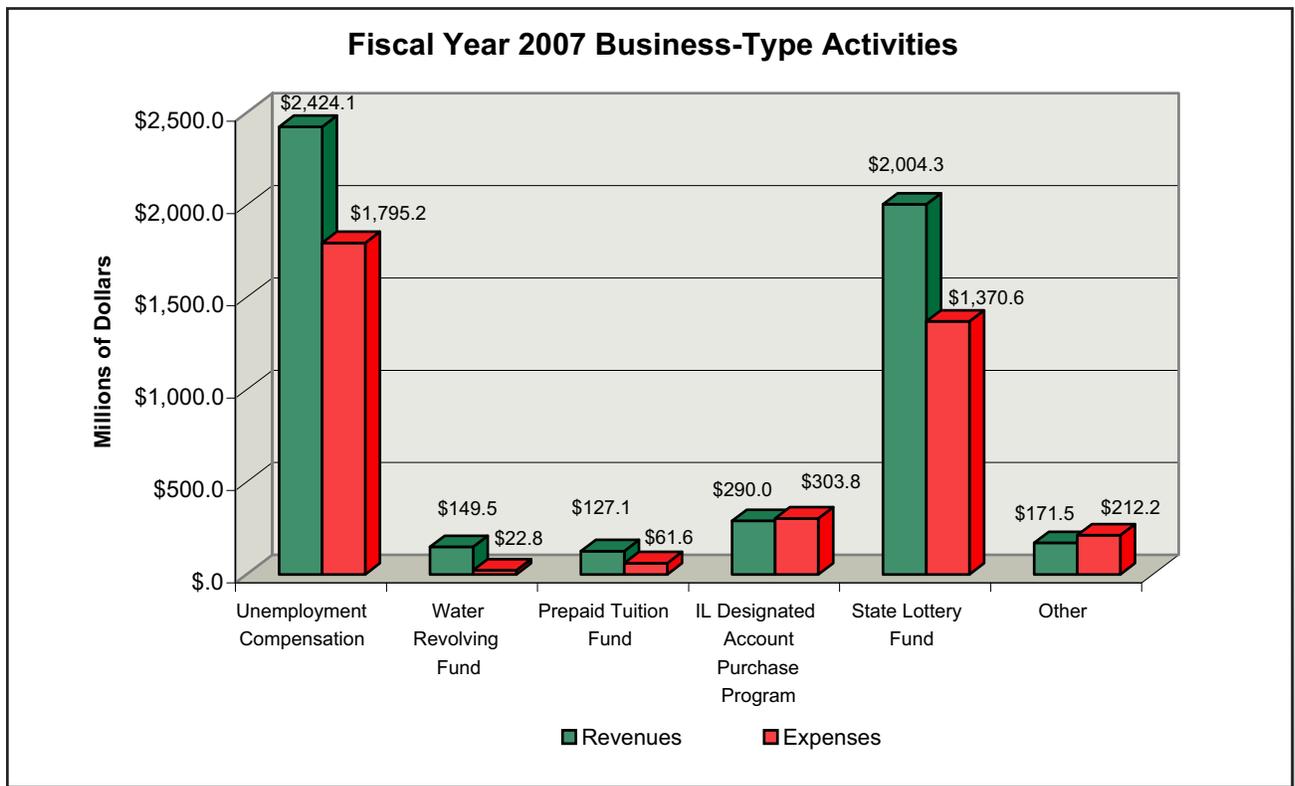
BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

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, leading to

local governments for drinking water and wastewater infrastructure facilities (Water Revolving Fund), lending to full-time college students (Illinois Designated Account Purchase Program), and operating the State Lottery. 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 2007. The excess profits of the State Lottery Fund are transferred out to make school aid payments.



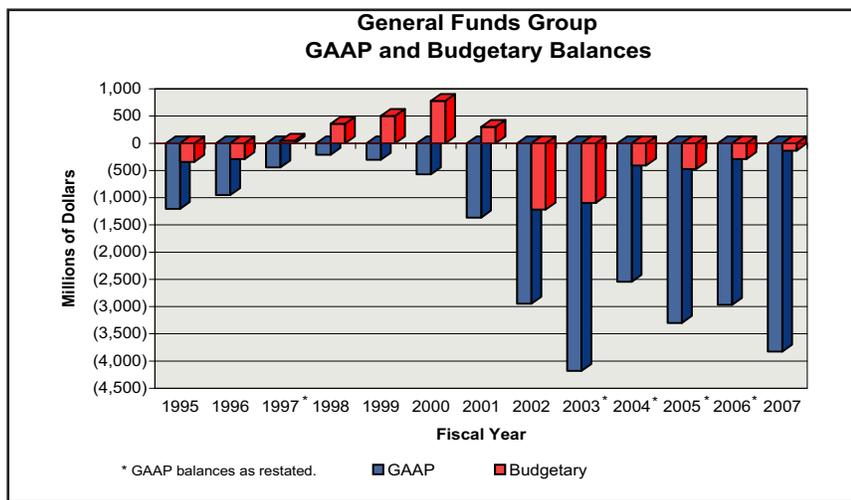
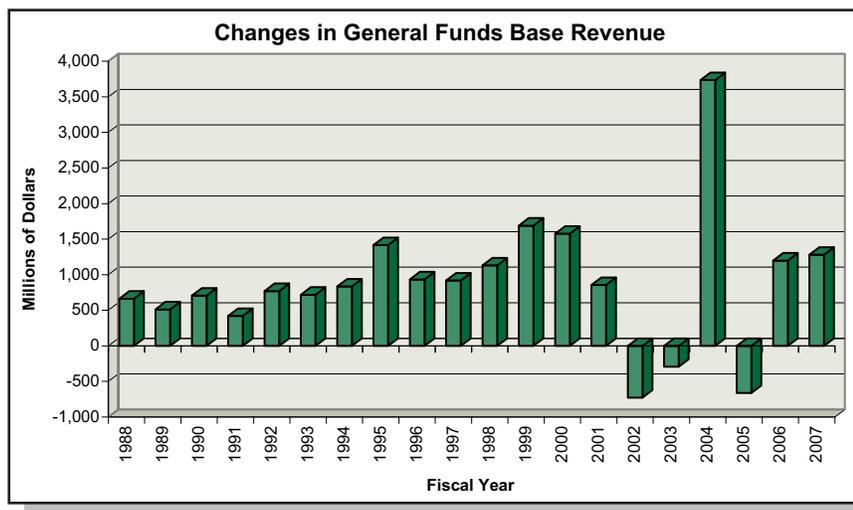
BUDGETARY BASIS

Fiscal Summary

For fiscal year 2007, General Funds base revenues increased \$1.281 billion. Revenues were impacted by the economy as the state's largest sources of revenue, income taxes, once again showed significant growth. However, sales tax growth slowed. Base expenditures grew \$1.311 billion for the year. Spending growth was due to increases in Medicaid expenditures, education funding and retirement expenditures.

Fiscal year 2007 resulted in a modest improvement in the General Funds budgetary balances (measured on a cash basis). The balance increased from a \$291 million *deficit* in fiscal year 2006 to a \$135 million *deficit* this year.

The state's General Funds GAAP balance decreased from a \$2.970 billion deficit in fiscal year 2006, to a \$3.828 billion deficit in fiscal year 2007.



General Funds Base Revenue- Up 4.7% in Fiscal Year 2007

General Funds revenue grew \$1.637 billion or 5.7% in fiscal year 2007, increasing to \$30.272 billion from \$28.635 billion in fiscal year 2006. Excluding the transfer of \$276 million from the Budget Stabilization Fund, short-term borrowing of \$900 million and \$456 million in cash flow transfers, base revenues increased \$1.281 billion or 4.7%. The continued strength of the economy, which resulted in a \$1.1 billion increase in income tax receipts, was primarily responsible for the growth in base revenues this year.

State sources increased \$1.303 billion or 5.8% as cash receipts grew \$1.158 billion and transfers in from other funds increased by \$145 million. Federal sources decreased \$22 million or 0.5%.

continued to grow. Obviously, these economic factors had a major impact on income tax receipts. Corporate income tax receipts deposited into the General Funds increased \$322 million or 22.5%. Corporate income tax receipts were impacted by a decrease in the percentage allocated to the Income Tax Refund Fund. Total corporate income taxes grew \$336 million or 18.9% as before tax corporate profits growth slowed over the year increasing 7.6% in fiscal year 2007.

Retail sales for the year reflected the slowing of economic growth including auto sales which declined approximately 4%. Also, a misallocation of receipts in the prior year and the subsequent adjustment in fiscal year 2007 impacted the total. As a result, revenues from

General Funds Revenue (Millions of Dollars)												Change From FY2005 to FY2006	
	Fiscal Year										Amount	Percent	
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007			
Personal Income Tax	\$ 6,847	\$ 7,226	\$ 7,686	\$ 7,996	\$ 7,471	\$ 7,341	\$ 7,272	\$ 7,979	\$ 8,635	\$ 9,408	\$ 773	9.0 %	
Corporate Income Tax	1,136	1,121	1,237	1,036	803	738	936	1,172	1,428	1,750	322	22.5	
Sales Taxes	5,274	5,609	6,027	5,958	6,051	6,059	6,331	6,595	7,092	7,136	44	0.6	
Gaming Sources:													
Lottery Fund	560	540	515	501	555	540	570	614	670	622	(48)	(7.2)	
Riverboat Gaming	170	240	330	460	470	554	663	698	689	685	(4)	(0.6)	
Miscellaneous	11	11	9	7	16	11	13	12	8	9	1	12.5	
Total, Gaming	741	791	854	968	1,041	1,105	1,246	1,324	1,367	1,316	(51)	(3.7)	
Public Utility Taxes	912	1,019	1,116	1,146	1,104	1,006	1,079	1,056	1,074	1,131	57	5.3	
Other Tax Sources	1,404	1,779	1,924	2,230	2,207	2,007	2,225	2,430	2,295	2,261	(34)	(1.5)	
Other Transfers In	346	411	514	452	444	890	2,545	1,347	743	935	192	25.8	
Base State Sources	\$ 16,660	\$ 17,956	\$ 19,358	\$ 19,786	\$ 19,121	\$ 19,146	\$ 21,634	\$ 21,903	\$ 22,634	\$ 23,937	\$ 1,303	5.8 %	
Federal Sources	3,324	3,718	3,892	4,320	4,258	3,940	5,189	4,257	4,725	4,703	(22)	(0.5)	
Total Base Revenue	\$ 19,984	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,379	\$ 23,086	\$ 26,823	\$ 26,160	\$ 27,359	\$ 28,640	\$ 1,281	4.7 %	
Transfer from Budget													
Stabilization Fund	0	0	0	0	226	226	226	276	276	276	0	0.0	
Cash Flow Transfer	0	0	0	0	0	0	0	982	0	456	456	N/A	
Short-Term Borrowing	0	0	0	0	0	1,675	0	765	1,000	900	(100)	(10.0)	
Total Revenue	\$ 19,984	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,605	\$ 24,987	\$ 27,049	\$ 28,183	\$ 28,635	\$ 30,272	\$ 1,637	5.7 %	

Led by a continued strong economic performance, personal income taxes including deposits into the Refund Fund increased \$857 million or 9.0%. With no change in the percent of taxes allocated to the Refund Fund, personal income taxes net of refunds grew \$773 million or 9.0% for fiscal year 2007. Over the year, employment in Illinois increased by 60,000 jobs as personal income grew 5.9%. In addition, the stock market

the state sales tax totaled \$7.136 billion, an increase of only \$44 million or 0.6%.

Gaming revenues declined \$51 million or 3.7% to \$1.316 billion for the year. Lottery transfers accounted for most of the decrease (down \$48 million) while riverboat gaming revenues decreased by \$4 million. Riverboat gambling tax rates reverted to prior lower levels

General Funds Revenue *concluded*

with a hold harmless provision also in effect for fiscal year 2007.

For fiscal year 2007, public utility taxes increased 5.3% with telecommunications tax revenues \$46 million higher, while revenues from the natural gas tax increased \$6 million and electric tax receipts up \$5 million. Gas and electric are consumption-based taxes and grow with increased usage. Telecommunications tax receipts increased due to a reduced use of credits to pay liabilities.

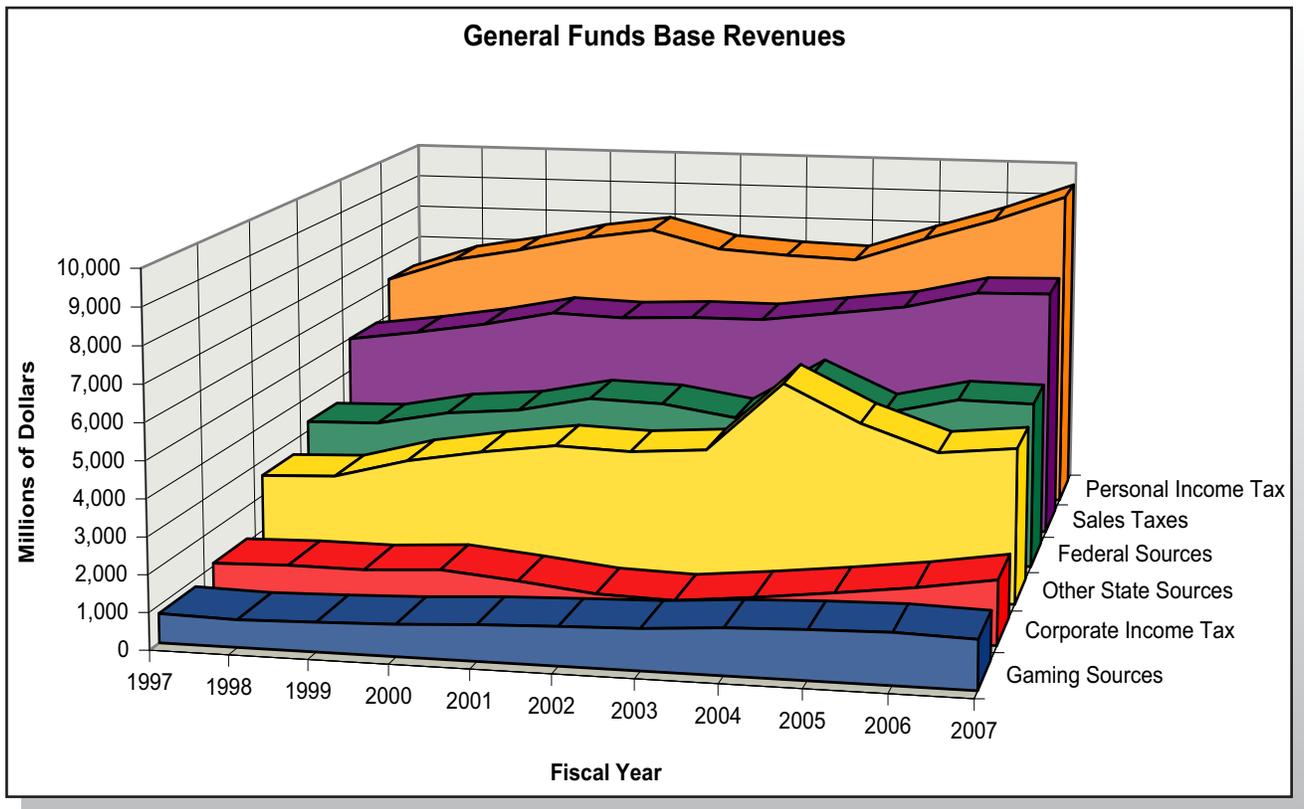
Receipts from other tax sources were down \$34 million or 1.5% for the year. The Cook County intergovernmental transfer agreement was reduced this year with receipts down \$43 million. A reallocation of cigarette taxes resulted in a \$50 million decrease to the General Funds. Insurance tax revenues declined again, falling

by \$7 million. Investment income increased \$51 million due primarily to higher interest rates and larger balances. The \$192 million increase for other transfers in was due primarily to the \$141 million increase in transfers from the Income Tax Refund Fund. The other major increase in transfers was the \$81 million from the Hospital Provider Fund from the hospital assessment program.

Federal sources decreased \$22 million or 0.5% in fiscal year 2007. This decrease was due to a decline in medical assistance reimbursements.

For fiscal year 2007, income and sales taxes brought in 60.5% of total General Funds base revenues, while federal sources and other sources accounted for 15.5% and 24.0%, respectively. This reaffirms the importance of the economy as the major factor in determining General Funds revenue growth next year.

BUDGETARY BASIS



General Funds Base Spending- Up 4.8% in Fiscal Year 2007

General Funds base expenditures for fiscal year 2007, which excludes a \$1.643 billion short-term borrowing repayment, totaled \$28.473 billion, an increase of \$1.311 billion or 4.8% from fiscal year 2006 spending. Spending from the General Funds has increased by an average of \$1.160 billion over the last nine fiscal years. Among the various categories of spending, operations increased by \$297 million, awards and grants increased \$1.098 billion, short term borrowing repayment increased \$353 million and regular transfers out decreased \$86 million. All other spending increased \$2 million from the prior year.

For fiscal year 2007, General Funds awards and grants spending totaled \$18.785 billion, \$1.098 billion or 6.2% above fiscal year 2006. The Departments of Healthcare and Family Services (formerly the Department of Public Aid), Human Services and the State Board of Edu-

cation accounted for 84.4% or \$15.863 billion of all General Funds awards and grants in fiscal year 2007. Total grants accounted for 66.0% of total base spending from the General Funds for the fiscal year, up from 65.1% last fiscal year and 61.8% in fiscal year 2005.

The largest spending grant agency in fiscal year 2007 and for four of the last ten fiscal years was the Department of Healthcare and Family Services. Healthcare and Family Services grant spending of \$6.545 billion from the General Funds in fiscal year 2007 is \$340 million or 5.5% higher than the previous year and accounted for 34.8% of total grant expenditures. All of the Department's grant spending from the General Funds is for medical assistance.

The State Board of Education had the second highest level of grant spending in fiscal year 2007 and the highest level in six of the last ten fiscal years. State Board

	Fiscal Year										Change from FY 2006 to FY 2007	
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Amount	Percent
Operations:												
Higher Education	\$ 1,392	\$ 1,478	\$ 1,574	\$ 1,662	\$ 1,765	\$ 1,660	\$ 1,545	\$ 1,432	\$ 1,401	\$ 1,407	6	0.4 %
Healthcare and Family Services (Public Aid)	102	113	208	126	166	154	143	128	1,137	1,181	44	3.9
Corrections	908	1,019	1,095	1,168	1,222	1,149	1,154	1,187	1,156	1,104	(52)	(4.5)
Human Services	958	1,008	1,015	1,067	1,101	998	962	949	931	990	59	6.3
Children and Family Services	261	273	285	286	298	284	274	257	269	285	16	5.9
Central Management Services	515	560	645	698	733	818	1,026	977	92	102	10	10.9
Other Operations	1,183	1,276	1,476	1,623	1,671	1,403	1,330	1,373	1,413	1,627	214	15.1
Total, Operations	\$ 5,319	\$ 5,727	\$ 6,298	\$ 6,630	\$ 6,956	\$ 6,466	\$ 6,434	\$ 6,303	\$ 6,399	\$ 6,696	297	4.6 %
Awards and Grants:												
State Board of Education:												
Apportionment	\$ 2,471	\$ 2,922	\$ 2,983	\$ 2,995	\$ 3,232	\$ 3,142	\$ 3,446	\$ 3,682	\$ 3,896	\$ 4,127	\$ 231	5.9 %
Other	1,562	1,477	1,716	1,885	1,864	1,919	1,927	2,036	2,119	2,298	179	8.4
Total, State Board of Education	4,033	4,399	4,699	4,880	5,096	5,061	5,373	5,718	6,015	6,425	410	6.8
Healthcare and Family Services (Public Aid)	3,887	4,239	4,695	5,192	4,986	4,945	5,546	4,861	6,205	6,545	340	5.5
Human Services	2,287	2,392	2,420	2,660	2,566	2,504	2,631	2,797	2,884	2,893	9	0.3
Higher Education	670	730	758	807	872	811	763	775	787	868	81	10.3
Teachers Retirement	429	584	649	732	821	931	739	938	609	813	204	33.5
Children and Family Services	660	616	635	634	607	540	521	497	534	487	(47)	(8.8)
Aging	159	182	202	220	227	230	244	269	296	357	61	20.6
Other Awards and Grants	425	507	509	551	556	378	390	362	357	397	40	11.2
Total, Awards and Grants	\$ 12,550	\$ 13,649	\$ 14,567	\$ 15,676	\$ 15,731	\$ 15,400	\$ 16,207	\$ 16,217	\$ 17,687	\$ 18,785	\$ 1,098	6.2 %
Other General Funds Warrants Issued	35	45	82	60	53	28	-11	47	17	19	2	11.8
Total, General Funds Warrants Issued	\$ 17,904	\$ 19,421	\$ 20,947	\$ 22,366	\$ 22,740	\$ 21,894	\$ 22,630	\$ 22,567	\$ 24,103	\$ 25,500	\$ 1,397	5.8 %
Regular Transfers Out	1,768	2,106	2,029	2,217	2,159	2,031	2,519	3,657	3,059	2,973	(86)	(2.8)
Base General Funds Expenditures	\$ 19,672	\$ 21,527	\$ 22,976	\$ 24,583	\$ 24,899	\$ 23,925	\$ 25,149	\$ 26,224	\$ 27,162	\$ 28,473	\$ 1,311	4.8 %
Short-Term Borrowing Repayment	0	0	0	0	226	936	1,216	2,023	1,290	1,643	353	27.4
Total, General Funds Expenditures	\$ 19,672	\$ 21,527	\$ 22,976	\$ 24,583	\$ 25,125	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452	\$ 30,116	\$ 1,664	5.8 %

General Funds Base Spending *concluded*

grant spending of \$6.425 billion in fiscal year 2007 is \$410 million or 6.8% higher than fiscal year 2006 and accounts for 34.2% of total General Funds grant spending. General state aid to school districts accounts for the largest portion (64.2%) of State Board grant spending with \$4.127 billion expended in 2007. Slightly more than 56.3% (\$231 million) of the \$410 million increase in State Board grants spending was dedicated to general state aid with the remainder of the increase (\$179 million) for categorical and other programs.

In fiscal year 2007, the Department of Human Services had grant spending of \$2.893 billion, \$9 million or 0.3% above 2006. The agency was formed as a consolidation of all or parts of six state social services agencies with the goal of achieving a more efficient and effective delivery of social services in Illinois and as a result delivers a large variety of services. 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 consolidated.

Two other sectors of government education spending garner a significant amount of General Funds grant dollars. Grant spending for teachers' retirement of \$813 million in fiscal year 2007 represented an increase of \$204 million or 33.5% from the prior year, but \$125 million or 13.3% lower than in fiscal year 2005. Legislation reduced statutory pension requirements for fiscal years 2006 and 2007. Higher education had awards and grants spending of \$868 million in fiscal year 2007, \$81 million or 10.3% higher than fiscal year 2006. Altogether, education grant spending from the General Funds in fiscal year 2007 totaled \$8.106 billion, up \$695 million or 9.4% from the previous year.

Spending for operations from the General Funds in fiscal year 2007 totaled \$6.696 billion, \$297 million or 4.6% higher than fiscal year 2006. Operations accounted for 23.5% of total General Funds base expenditures in 2007.

Higher education institutions accounted for the largest amount of spending for operations. In fiscal year 2007,

higher education operations expenditures of \$1.407 billion were \$6 million or 0.4% higher than fiscal year 2006 and accounted for 21.0% of total operations. Illinois' flagship university, the University of Illinois, accounted for \$695 million or 49.4% of higher education operations in fiscal year 2007.

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 (HFS). As a result, HFS had operations spending of \$1.137 billion in fiscal year 2006 and \$1.181 billion in fiscal year 2007 resulting in that agency being the largest in terms of operations expenditures. Of the \$1.181 billion in operations spending in fiscal year 2007, \$1.044 billion of that total was for group insurance. The \$1.044 billion expended for group insurance was \$40 million or 4.0% higher than the \$1.004 billion spent in the previous fiscal year.

The second 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 (DOC). Fiscal year 2007 expenditures by DOC for operations totaled \$1.104 billion, \$52 million or 4.5% lower than the previous year. The number of employees at DOC totaled 13,212 at the end of fiscal year 2007, down 483 or 3.5% from 13,695 at the end of fiscal year 2006.

With the largest headcount of any single state agency, the Department of Human Services recorded operations expenditures of \$990 million in fiscal year 2007, up \$59 million or 6.3%. At the end of the fiscal year the department's employee headcount was 14,485, a decrease of 372 or 2.5% from the previous year.

Regular transfers out of \$2.973 billion in fiscal year 2007 decreased by \$86 million or 2.8% from the previous year.

Fiscal Climate

Fiscal Year 2007

General Funds began the fiscal year with minor cash flow difficulties. A backlog of unpaid bills totaling \$234 million, reduced lapse period spending and continued economic revenue growth started the year on a positive note relative to fiscal year 2006. However, even with a \$1 billion reduction in pension funding from the previous year, General Funds appropriations were over \$1.2 billion higher. This included a modest increase in Medicaid appropriations even though there were significant Section 25 Medicaid obligations pending.

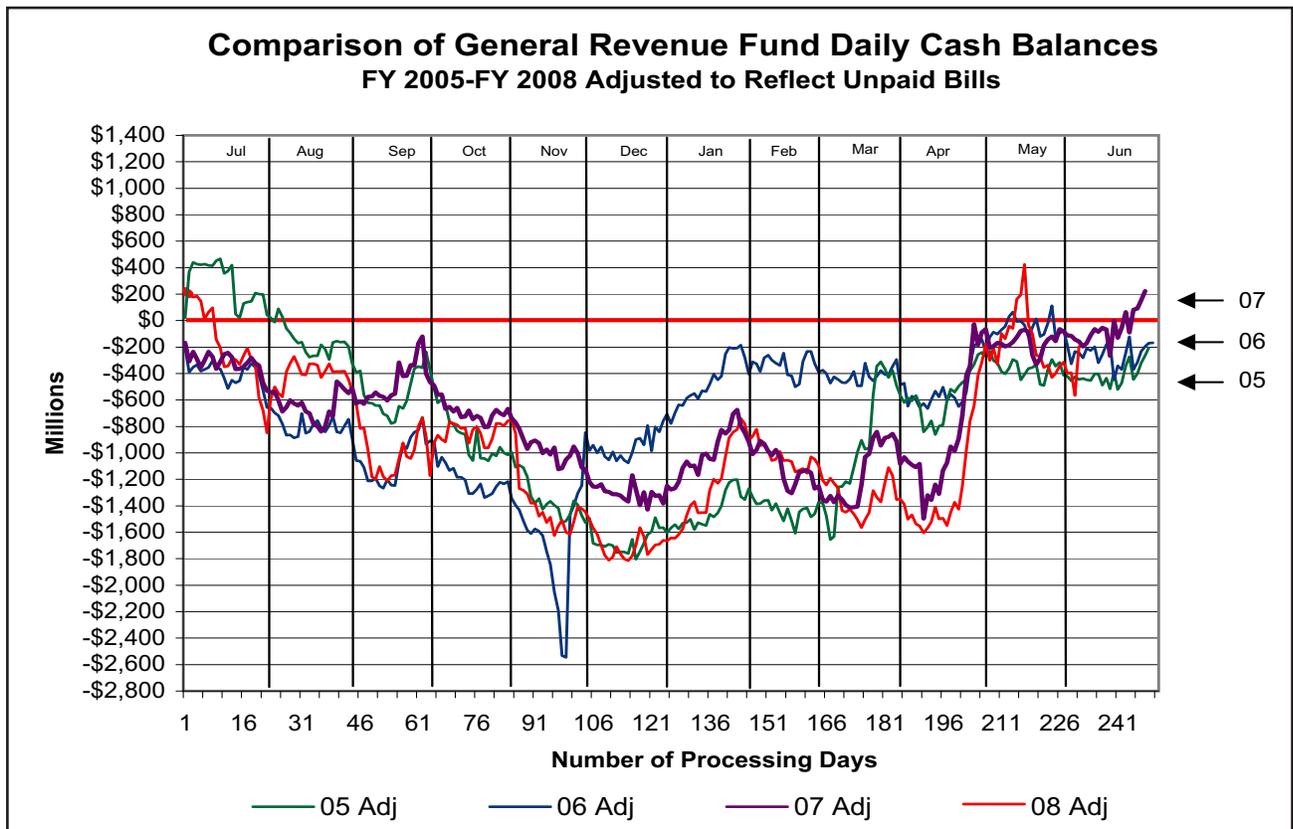
Economy-driven revenue growth began to slow during fiscal year 2007, as projected, with sales tax receipts experiencing the most sluggish growth. Consequently, the structural imbalance between revenues and expenditures once again had a serious impact on cash flow. The backlog of unpaid bills, as seen in the chart in purple, followed the pattern from previous years and increased to approximately \$1.3 billion by December 2006. Payment delays also increased from less than a week to around 22 days.

By the end of December, base revenues had shown a small decline. The increase in state sources of revenue

was completely offset by the decrease in federal sources. A major drop in Medicaid spending was ultimately responsible for the decline in federal revenues. Since appropriations for Medicaid were \$222 million higher, the decline in spending and federal revenues was expected to be reversed in the last half of the year.

In the final six months of fiscal year 2007, base revenues grew dramatically as economy-driven income taxes surged and federal revenues increased along with increased Medicaid expenditures. Offsetting some of growth was a decline in sales tax revenues over the last five months of the year. While a portion of this decline was due to an adjustment by the Department of Revenue, overall sales were slowing. By the end of the year, base revenues had increased by \$1.281 billion.

At the end of fiscal year 2007, the state's cash position had improved over the prior year as there was no backlog of unpaid bills or delays in payments. Lapse period spending decreased from \$881 million to \$777 million and the budgetary balance in the General Funds improved from a negative \$291 million to a negative \$135 million. All of the improvement was in the General Rev-



Fiscal Climate *continued*

enue Fund as the GRF budgetary balance increased from a negative \$802 million to a negative \$525 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. A low rate of growth in Medicaid appropriations resulted in GRF Section 25 liabilities basically showing no change. The GRF Section 25 liabilities at the end of fiscal year 2007 for bills in the hands of the agency totaled \$1.911 billion compared to \$1.914 billion for fiscal year 2006.

A Look at Fiscal Year 2008

With no backlog of unpaid bills or payment delays at the Comptroller's Office, fiscal year 2008 began with the best cash flow position that the state has had in many years. A major concern was slowing in sales tax revenues since this usually portends a slowing of the economy and impacts income and sales tax revenue growth. In addition, spending pressures increased as the appropriations from the General Funds were increased \$1.5 billion or 5.7% over last year.

In July 2007, the Department of Healthcare and Family Services sent almost \$1.6 billion in Medicaid vouchers to the Comptroller's Office which had an immediate impact on the backlog of unpaid bills. By the end of the first quarter of the fiscal year, payables totaled \$1.393 billion. Payments delays increased to 16 days.

Forecasts for economic growth were reduced and economy-driven revenues, primarily corporate income tax and sales tax receipts, continued to weaken. Through the second quarter, the state's cash flow position continued to deteriorate. At the end of December the backlog of unpaid bills stood at \$1.720 billion and the delay in paying bills was 34 business days.

In January, Public Act 95-707 was implemented which reduced the percentage of income taxes allocated to the Refund Fund and increased the amounts deposited into the GRF. The increase in these revenues and a slowing in spending growth helped to reduce the backlog and delays only slightly. In addition, with Medicaid appropriations increased by only \$345 million, it is unlikely that there will any major improvement in Section 25 liabilities at the end of the year.

BUDGETARY BASIS

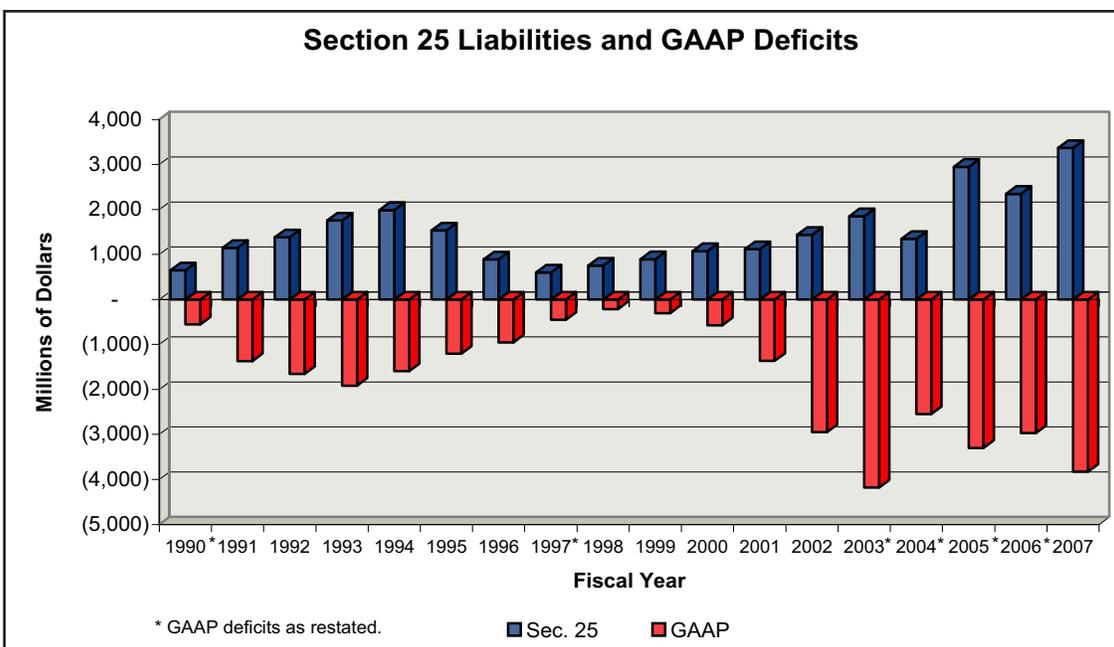
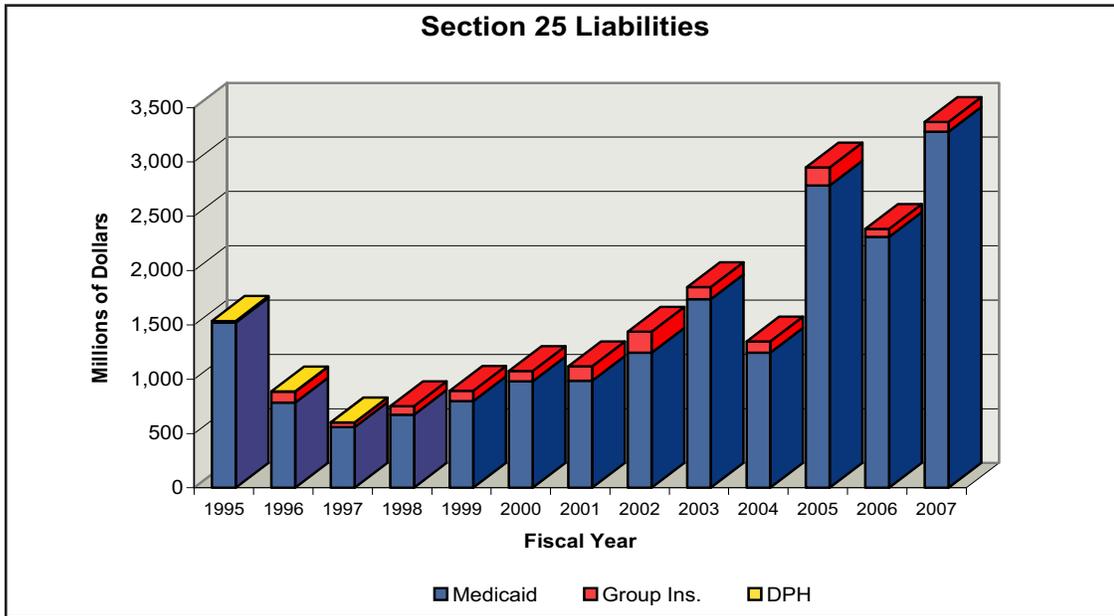
Fiscal Year	General Funds				General Revenue Fund	
	GAAP Balance	Change	Budgetary Balance	Change	Budgetary Balance	Change
1990 *	(557)	(483)	(191)	(339)	(242)	(249)
1991	(1,368)	(811)	(666)	(475)	(702)	(460)
1992	(1,656)	(288)	(887)	(221)	(828)	(126)
1993	(1,916)	(260)	(630)	257	(607)	221
1994	(1,595)	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 *	(4,181)	(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	(3,828)	(858)	(135)	156	(525)	277

* GAAP balance as restated.

Fiscal Climate *concluded*

It is apparent that the financial position of the state will deteriorate this fiscal year. The governor's proposed fiscal year 2009 budget proposal and other sources estimate there will be a revenue shortfall in fiscal year 2008 of approximately \$750 million or more. To what extent this imbalance, if accurate, is addressed, the effect of a slowing economy, and the impact of the federal stimulus package will determine the magnitude of the decline

in the fiscal position of the state. A potentially slowing economy will likely not provide sufficient revenue growth for the continued increase in spending pressure from pensions, Medicaid and education. Therefore, unless some relevant action is taken, cash flow problems will persist for the General Funds for some time to come.



EXECUTIVE SUMMARY • FISCAL YEAR ENDED JUNE 30, 2007

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