



STATE OF ILLINOIS
COMPTROLLER

JUDY BAAR TOPINKA

Fiscal Year 2010

EXECUTIVE SUMMARY



STATE OF ILLINOIS COMPTROLLER JUDY BAAR TOPINKA



Judy Baar Topinka

June, 2011

A Message to Illinois Taxpayers

Providing taxpayers with useful and understandable information about the fiscal condition of the State of Illinois is, and will continue to be, a cornerstone of my administration. This *Executive Summary*, also known by the financial community as Illinois' popular annual financial report, is written and compiled to enhance public understanding of the state's financial statements.

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

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

In this *Executive Summary*, as in past reports, we 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 is also a useful resource for taxpayers to measure the effectiveness of governmental programs.

The fiscal year 2010 report notes that Illinois' cash position worsened considerably as the budgetary deficit increased by \$2.4 billion from a deficit of \$3.673 billion to a deficit of \$6.094 billion. The General Fund GAAP balance also deteriorated. The state ended fiscal year 2010 with a negative General Fund balance of \$9.239 billion, indicating that the state's GAAP deficit increased by \$1.8 billion compared to the prior year. Section 25 liabilities – essentially fiscal year 2010 bills paid for with fiscal year 2011 appropriations – stayed almost level this year, totaling \$1.521 billion as of June 30, 2010, as the federal stimulus legislation that required prompt payments of certain Medicaid vouchers remained in effect throughout fiscal year 2010.

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

Sincerely,

Judy Baar Topinka
State Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

State of Illinois

for the Fiscal Year Ended

June 30, 2009



President



Executive Director

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Photo courtesy of Illinois State Historical Library

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 12.8 million inhabitants live in urban areas, although there is a strong rural presence in the state as well. Nearly one-fourth or approximately 2.7 million of the state's residents live in Chicago, the third largest city in the country. Seven other municipalities including Aurora, Elgin, Rockford, Naperville, Joliet, Peoria, and the state's capital of Springfield have populations in excess of 100,000 with another 21 municipalities' populations estimated to be in excess of 50,000.

The framework of government for Illinois and its 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 twenty-two major departments in fiscal year 2010 including Human Services, Transportation, Healthcare and Family Services, and Revenue. There are also numerous other smaller agencies, and over one hundred miscellaneous boards and commissions under the jurisdiction of the Governor. In addition, the other five elected officers under the executive branch oversee their respective agencies. State government agencies combined directly employed a total of 67,742 persons at the end of fiscal year 2010, 1,287 less than one year earlier. The Department of Human Services (13,237), Corrections (11,437), Transportation (5,924), and the Secretary of State (4,171) account for just over half (51.3%) of all direct government employees.

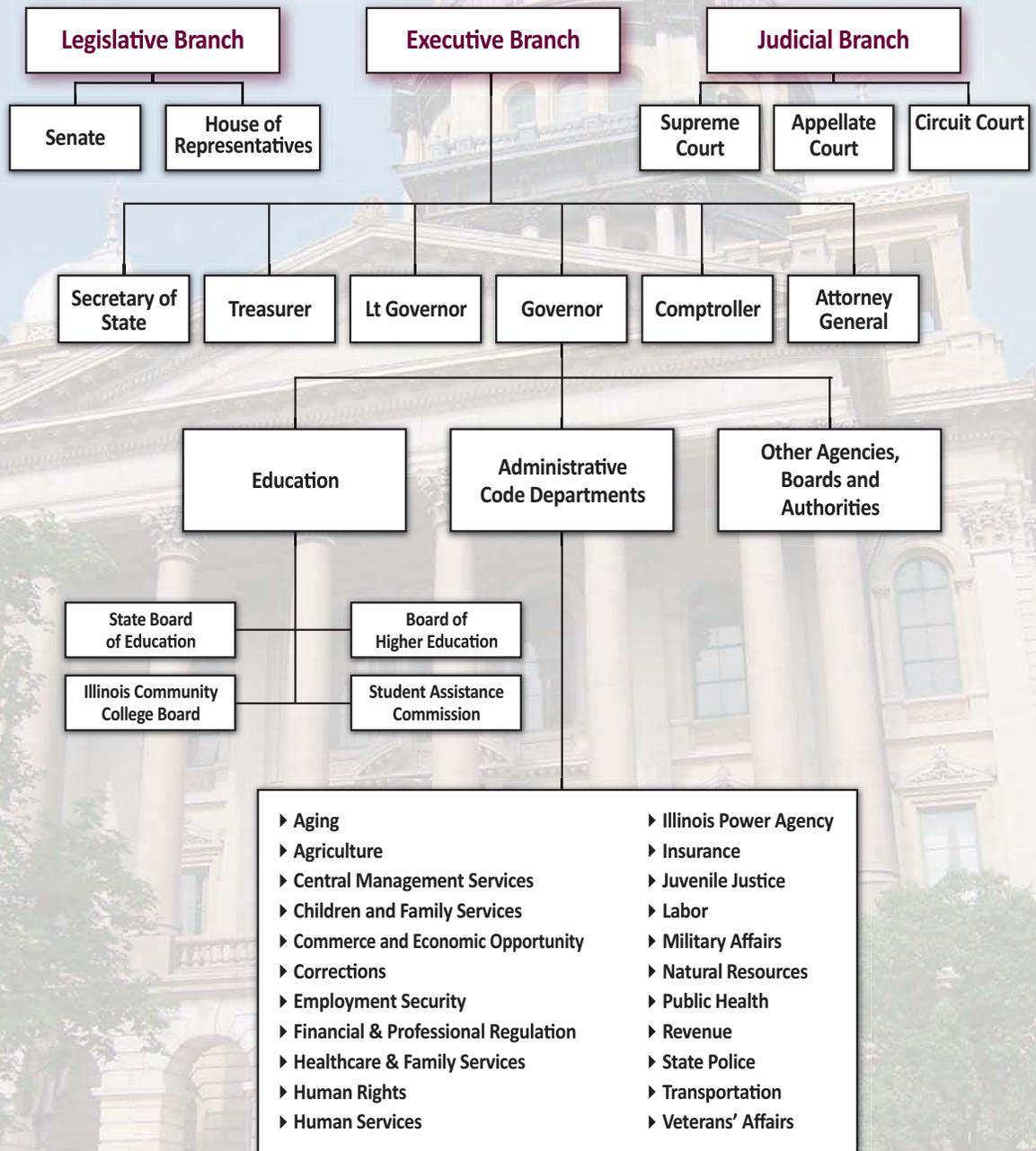
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 868 school districts and 3,912 schools. In fiscal year 2010, about 2.1 million public school children were instructed by over 133,000 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 2010 fiscal year, nearly 590,000 students were enrolled in Illinois' public colleges and universities, and about 315,000 were enrolled in private institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. In fiscal year 2010, the average monthly count of enrolled individuals for which the Department of Healthcare and Family Services provided means-tested medical coverage was over 2.6 million. The Department of Transportation administers the state's highway program through nine district offices and is responsible for more than 16,000 highway miles.

Total expenditures for governmental funds (on the modified accrual basis of accounting) for these major programs and all other operations of state government in fiscal year 2010 was \$58.2 billion or approximately \$4,547 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$50.6 billion for the governmental funds with income taxes (\$10.1 billion), federal revenues (\$21.1 billion), and sales taxes (\$8.8 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$24.5 billion), and Education (\$15.5 billion). ■

ELECTORATE



Economic Outlook • Fiscal Year 2010

Illinois continued to suffer from the effects of the severe recession during fiscal year 2010. Each of the measures of Illinois' economic activity remained weak during the fiscal year. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.597 million workers in fiscal year 2010, a decrease of 222,000 jobs or 3.8% below 2009 employment and 448,000 jobs or 7.4% below peak employment of 6.045 million jobs in fiscal 2001. A second Illinois employment estimate, obtained through household surveys, also showed a decrease in Illinois employment. According to these surveys, an average of 5.910 million Illinoisans were employed in fiscal year 2010, down 176,000, or 2.9%, from the prior year employment level.

The average Illinois unemployment rate increased from 4.6% in fiscal year 2007 and 5.7% for 2008 to 8.2% for fiscal year 2009 and 10.9% for fiscal year 2010. The increased average unemployment rate was caused by the drop in employment levels and the growth in the average number of unemployed which more than doubled from 306,000 during fiscal year 2007 to 721,000 for fiscal year 2010.

The shift in Illinois employment from the manufacturing to the service sectors continued in fiscal year 2010. Average fiscal year 2010 manufacturing employment of 559,000 jobs was down 62,000 jobs or 10.0% from fiscal year 2009 and down 348,000 jobs or 38.3% 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 decreased 1.1% in fiscal year 2010 as nominal personal income fell 0.1% and the consumer price index was up 1.0%. State personal income adjusted for inflation had decreased 1.4% in fiscal year 2009 ending a six year period of annual economic growth.

Fiscal Year 2011 and Beyond

The first three quarters of fiscal year 2011 have seen signs of a recovery from the recession in Illinois as the economic indicators have started the climb back from the low point in the business cycle. The average Illinois unemployment rate was 9.4% for the first three quarters of the fiscal year as employment as measured through the household survey was up 128,000 or 2.2% from its prior year level. The payroll employment improvement was more modest edging up 36,000 or 0.6% from its prior year level.

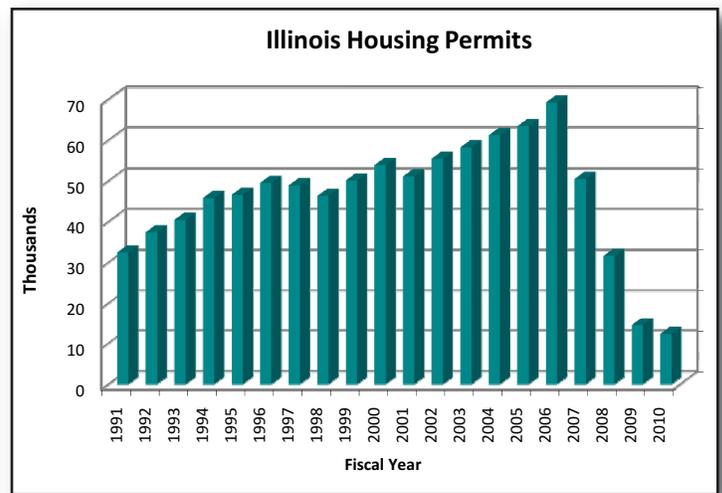
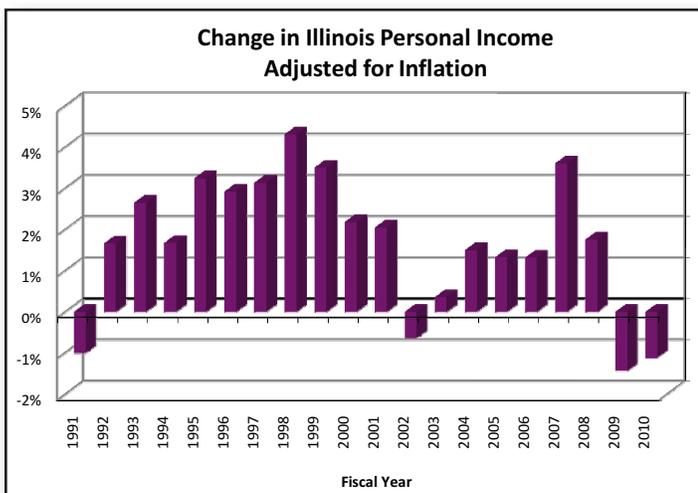
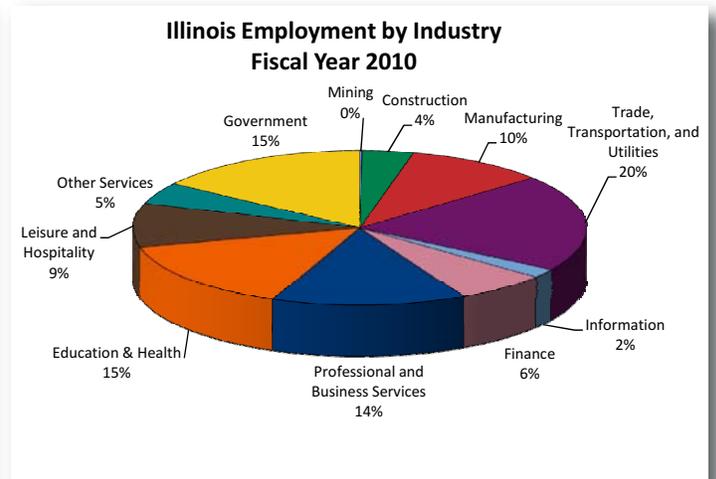
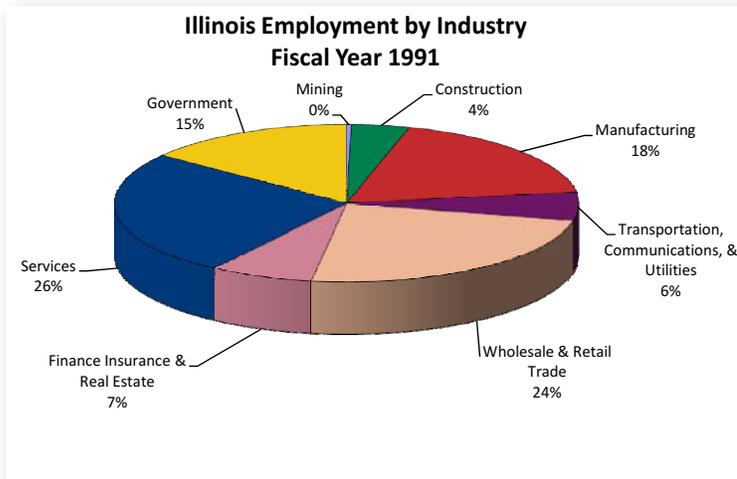
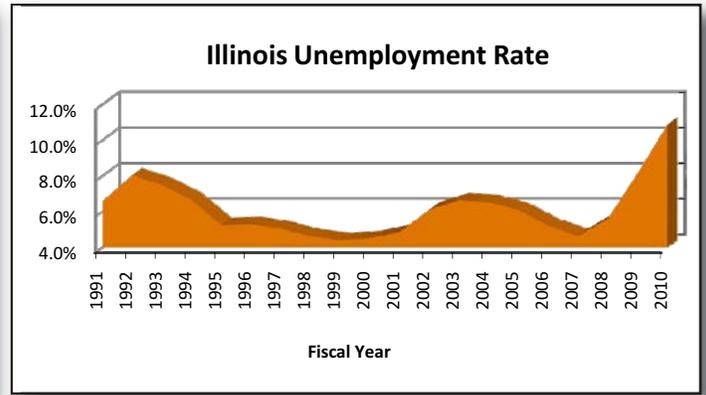
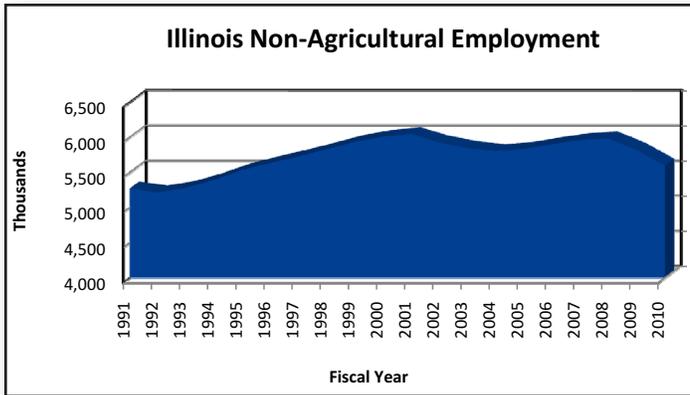
In working to restore its economy, Illinois can take advantage of its many strengths. Home to 31 of the Fortune 500 companies in 2010, Illinois is the business and financial center of the Midwest. Illinois is tightly integrated into the international economy. With exports of \$49.8 billion in calendar 2010, Illinois ranked Illinois 6th highest among the states including a number 3 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 2009 as well as being the hub for the national rail and highway networks. Through expanding private networks and 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 2010, Illinois private institutions served 315,000 students with another 205,000 served by the public universities. A statewide system of community colleges (384,000 students) and other training resources provide many additional educational opportunities.

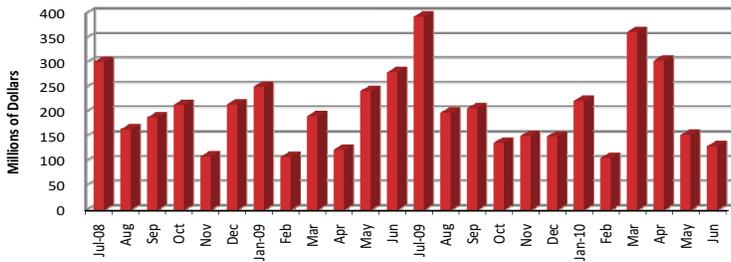
Associated with these education institutions are important scientific research centers, such as the Argonne National Laboratory, the Fermi National Accelerator Lab, and the National Center for Supercomputing Applications at the University of Illinois. In addition, Illinois based corporations operate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

Year-End Economic Summary



Year-End Fiscal Summary

General Funds End-of-Month Available Cash Balances



Taxes Receivable

| (in millions) | 6/30/09 | 6/30/10 | Change |
|----------------|---------|---------|--------|
| Gross Balance | \$2,626 | \$2,531 | (\$95) |
| Uncollectibles | \$781 | \$823 | \$42 |

Major Unfunded and Long Term Liabilities

| (in millions) | FY 2009 | FY 2010 |
|--|-----------|-----------|
| Net Pension Obligation | \$ 20,975 | \$ 22,263 |
| General Obligation Bonds | \$ 19,431 | \$ 24,863 |
| Build Illinois and Civic Center Bonds | \$ 2,147 | \$ 2,499 |
| Net Other Post-Employment Benefit Obligation | \$ 2,474 | \$ 3,879 |

G.O. Bond Rating

| | |
|-------------------|----|
| Moody's | A1 |
| S&P | A+ |
| Fitch | A |
| (as of June 2010) | |

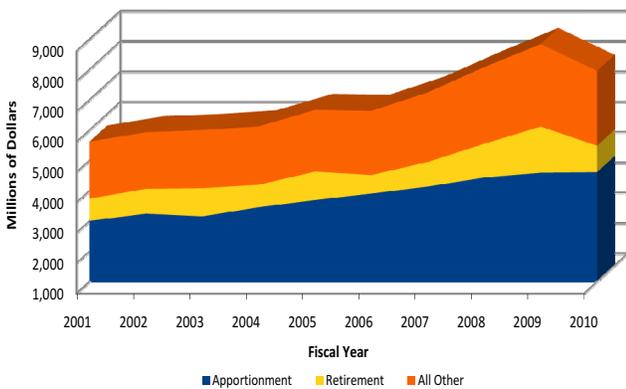
General Funds Fiscal Activity

| (in millions) | FY 2009 | FY 2010 | Change |
|---------------------------|------------|------------|------------|
| Beginning Balance | \$ 141 | \$ 280 | \$ 139 |
| Revenues | \$ 32,120 | \$ 30,329 | \$ (1,791) |
| Expenditures | \$ 31,981 | \$ 30,479 | \$ (1,502) |
| Ending Balance | \$ 280 | \$ 130 | \$ (150) |
| Lapse Period Transactions | \$ 3,953 | \$ 6,224 | \$ 2,271 |
| Budgetary Balance | \$ (3,673) | \$ (6,094) | \$ (2,421) |

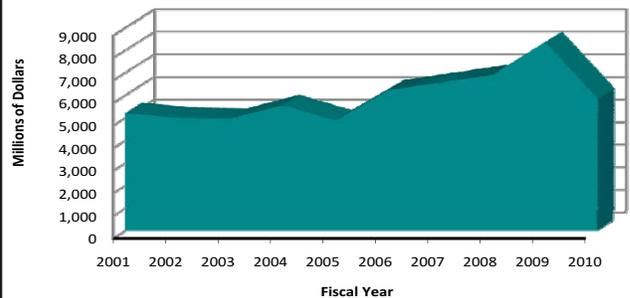
Section 25 Liabilities

| (in millions) | 6/30/09 | 6/30/10 | Change |
|---------------|---------|---------|--------|
| Liabilities | \$1,491 | \$1,521 | \$30 |

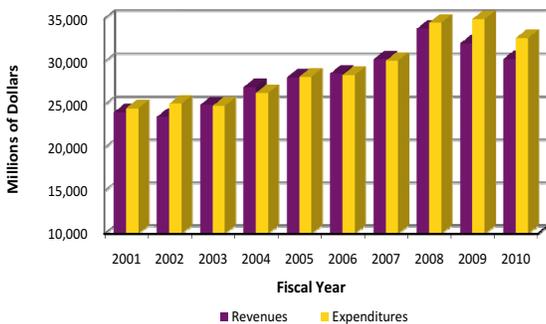
General Funds Elementary and Secondary Education Grant Spending



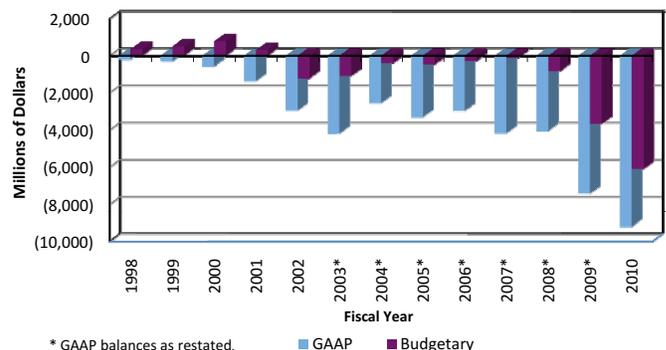
General Funds Medical Assistance Grant Spending Department of Healthcare and Family Services



General Funds Revenues and Expenditures



General Funds Group GAAP and Budgetary Balances



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)*.

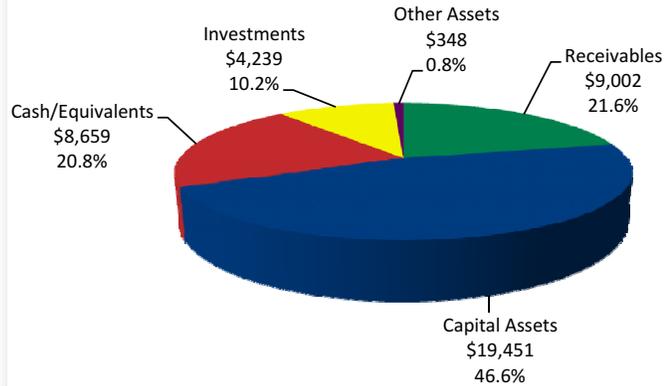
ASSETS

Total assets of the State of Illinois at June 30, 2010, were approximately \$41.7 billion, an increase of \$5.2 billion from June 30, 2009. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised over \$19.4 billion (46.6%) of the state's total assets.

LIABILITIES

Total liabilities of the state were approximately \$78.6 billion at June 30, 2010, an increase of \$14.8 billion from June 30, 2009. The state's largest liability balances are the net pension obligation of \$22.3 billion (28.3%) and the general and special obligation debt liability of \$27.4 billion (34.8%).

Total Assets (Primary Government)
June 30, 2010
Millions of Dollars

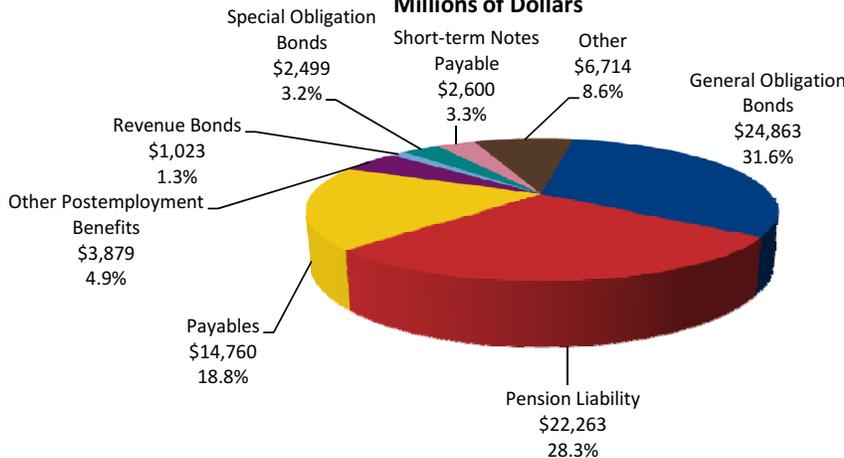


Net Pension Obligation

The net pension obligation at June 30, 2010, for the state's five pension trust funds was \$22.3 billion, an increase of approximately \$1.3 billion from June 30, 2009. 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)

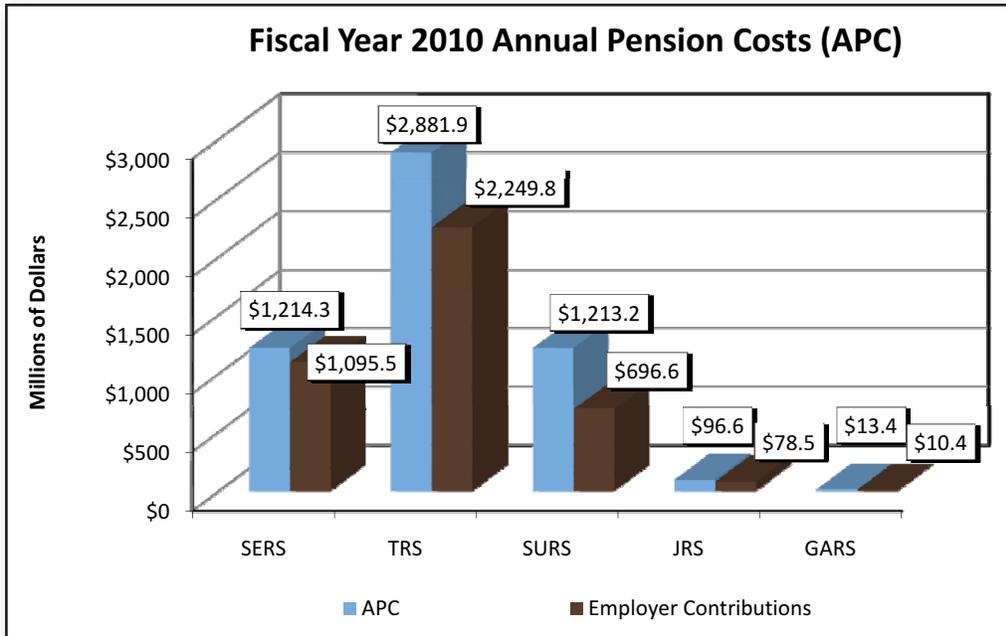
June 30, 2010
Millions of Dollars



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 provided 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 (2010), the state's contribution will then remain at

Liabilities

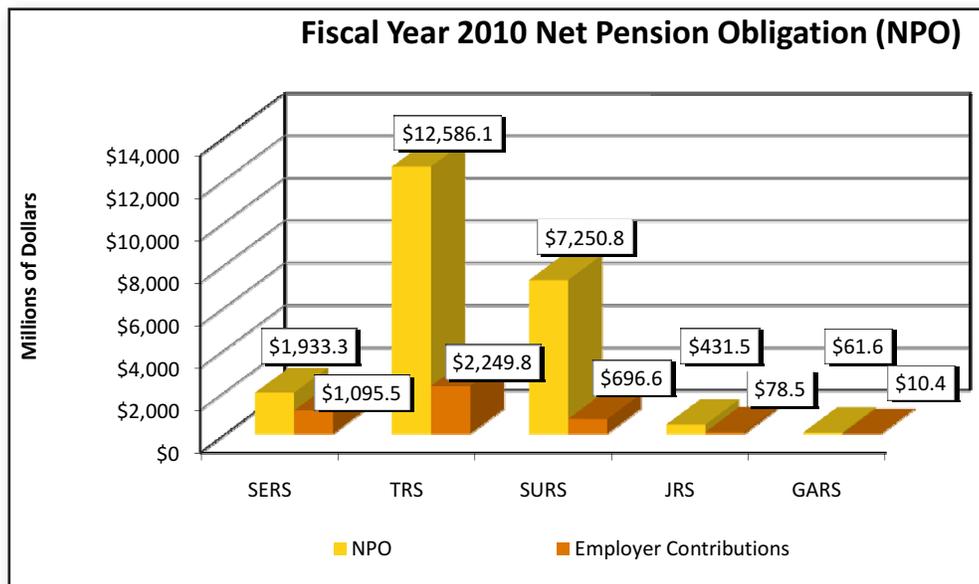


estimated and actual federal contributions. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the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

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 required the State’s contribution to increase in 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 es-

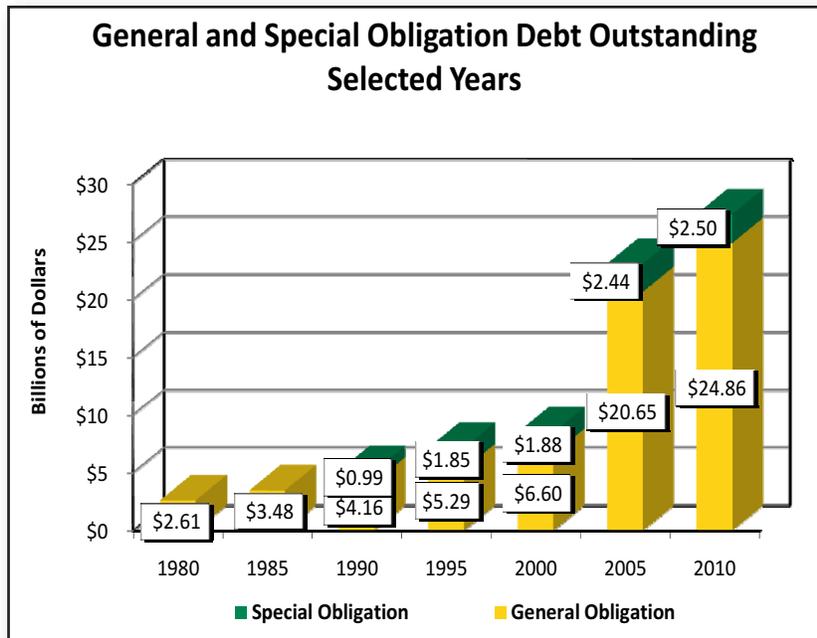
Actual contributions varied slightly from contributions required by statute mainly because of differences between es-



Bonds/Debt

General and Special Obligation Bonds

General and special obligation bonds, excluding refunding bonds, aggregating \$6.168 billion and \$530 million, respectively, were issued during fiscal year 2010 at interest rates ranging from 1.395% to 6.75%, including \$3.466 billion to pay for the majority of its fiscal year 2010 pension contribution. 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

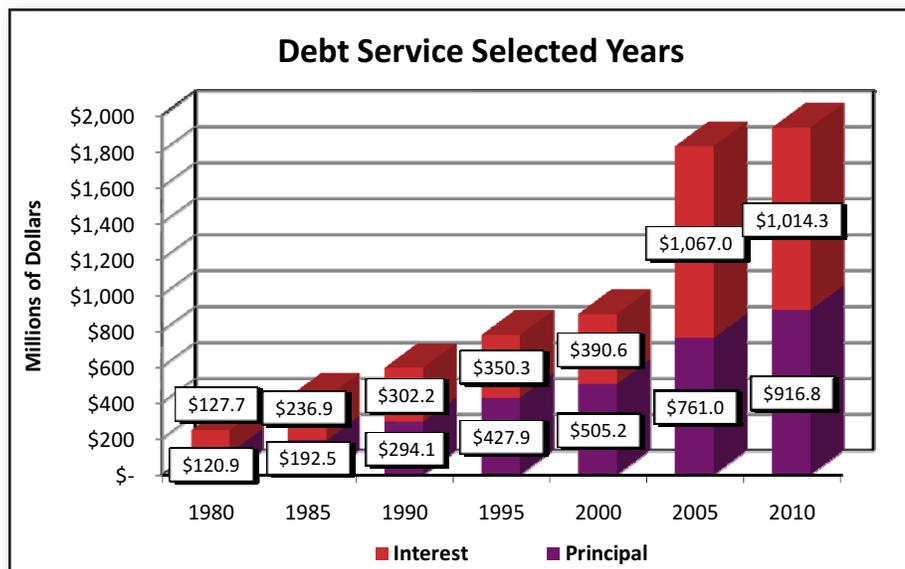
At June 30, 2010, the state's general obligation bond ratings are as follows: Moody's Investors Service "A1 with a Stable Outlook," Standard & Poor's Corporation (S & P) "A+ with a Credit Watch Negative," and Fitch Ratings "A with a Negative Outlook." These ratings were downgraded from A1, AA- and AA-, respectively, as of June 30, 2009. In addition, since June 30, 2010 the ratings have again been downgraded to A1 with a Negative Outlook by Moody's Investor Services, downgraded to A+ with a Negative outlook by Standard and Poor's, and upgraded to A with a Stable Outlook by Fitch Ratings.

Debt Service

Debt service principal and interest costs of \$916.8 million and \$1.0 billion, respectively, were paid in fiscal year 2010 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.

GAAP BASIS

The State's special obligation – Build Illinois Bonds – ratings were A1 with a Stable Outlook from Moody's Investor Services, AAA with a Stable Outlook from Standard and Poor's, and AA+ with a Negative Outlook from Fitch Ratings as of June 30, 2010. These ratings were downgraded from Aa3, AAA and AA, respectively, at June 30, 2009. Since June 30, 2010, the ratings have been downgraded to A1 with a Negative Outlook by Moody's and AA- with a Stable Outlook by Fitch Ratings, while Standard & Poor's rating remained unchanged.



Governmental Activity Revenues

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 (\$36.9) billion at June 30, 2010. This represents a \$10 billion decrease compared to the (\$26.9) billion in the previous fiscal year, as restated. The state has \$14.8 billion of net assets invested in capital assets (net of related debt), \$3.4 billion of restricted net assets, and (\$55.1) billion of unrestricted net assets.

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.

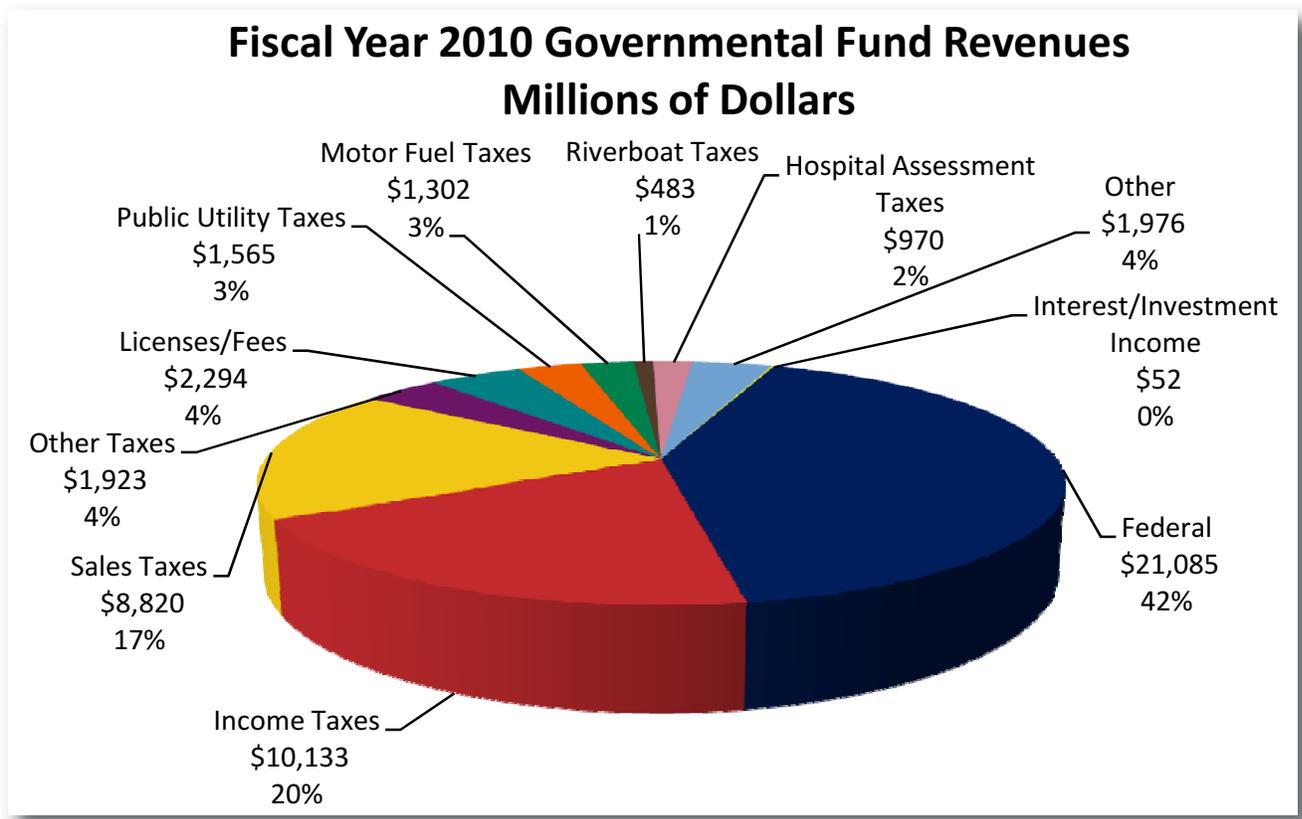
Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues from various sources for fiscal year 2010 for governmental funds are as follows.

Fiscal year 2010 governmental funds revenues of \$50.6 billion increased by \$504 million (1.0%) from fiscal year 2009 revenues, as restated. 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 2010, comprising nearly 49.8% of total governmental fund revenues, but decreased \$2.2 billion (8.2%). Federal government revenues comprise 41.7% of total governmental fund revenues.

Income Taxes

Income tax revenues for fiscal year 2010 were \$10.1 billion which is a \$1.8 billion (15.1%) decrease from fiscal year 2009 income tax revenues of \$11.9 billion. The decrease is generally the result of the decrease in the economy.

GAAP BASIS



Governmental Activity Expenditures

Sales Taxes

Sales taxes of \$8.8 billion remained the second largest tax revenue source for fiscal year 2010. Sales taxes decreased \$336 million (3.7%) from fiscal year 2009.

Federal Government Revenues

Federal government revenues increased \$3.0 billion (16.6%) from \$18.1 billion in fiscal year 2009 to \$21.1 billion in fiscal year 2010, and continued as the second largest overall revenue source behind taxes for the state's governmental funds.

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 \$58.2 billion in fiscal year 2010 increased \$3.2 billion (5.8%) from 2009 and were \$7.6 billion more than revenues on a GAAP basis.

Health and Social Services Expenditures

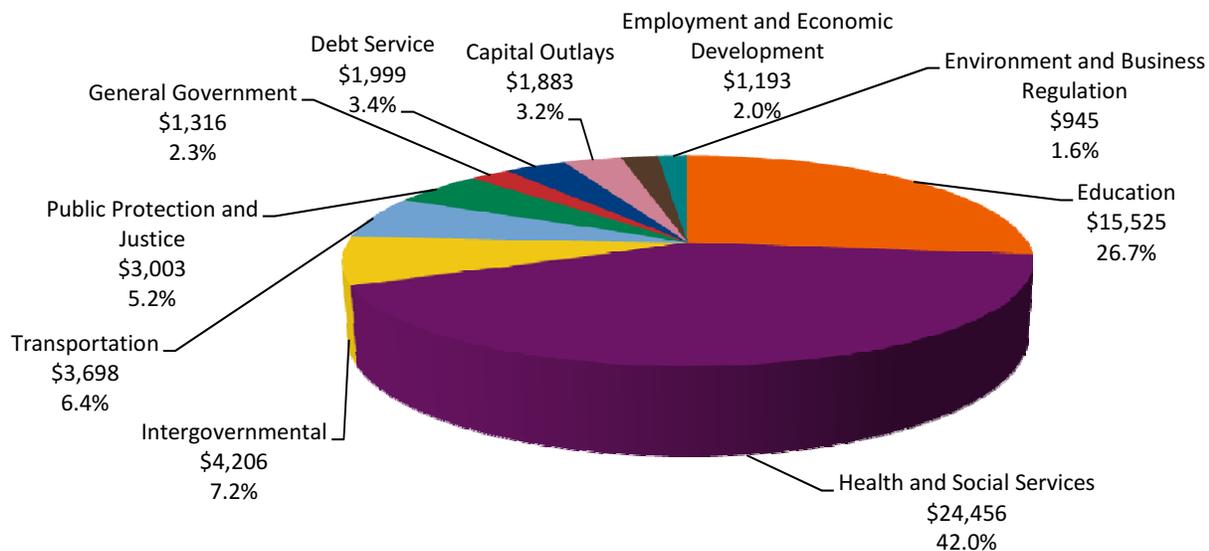
Health and social services expenditures of \$24.5 billion were the largest expenditure function for fiscal year 2010, increasing by \$1.3 billion from fiscal year 2009, as restated. This expenditure function is 42.0% of total governmental spending. The Department of Healthcare and Family Services accounted 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 2010. Education expenditures of \$15.5 billion increased \$1.2 billion (8.4%) from fiscal year 2009 on a GAAP basis and comprise 26.7% of total governmental expenditures.

GAAP BASIS

Fiscal Year 2010 Governmental Fund Expenditures
Millions of Dollars



Business-Type Activities

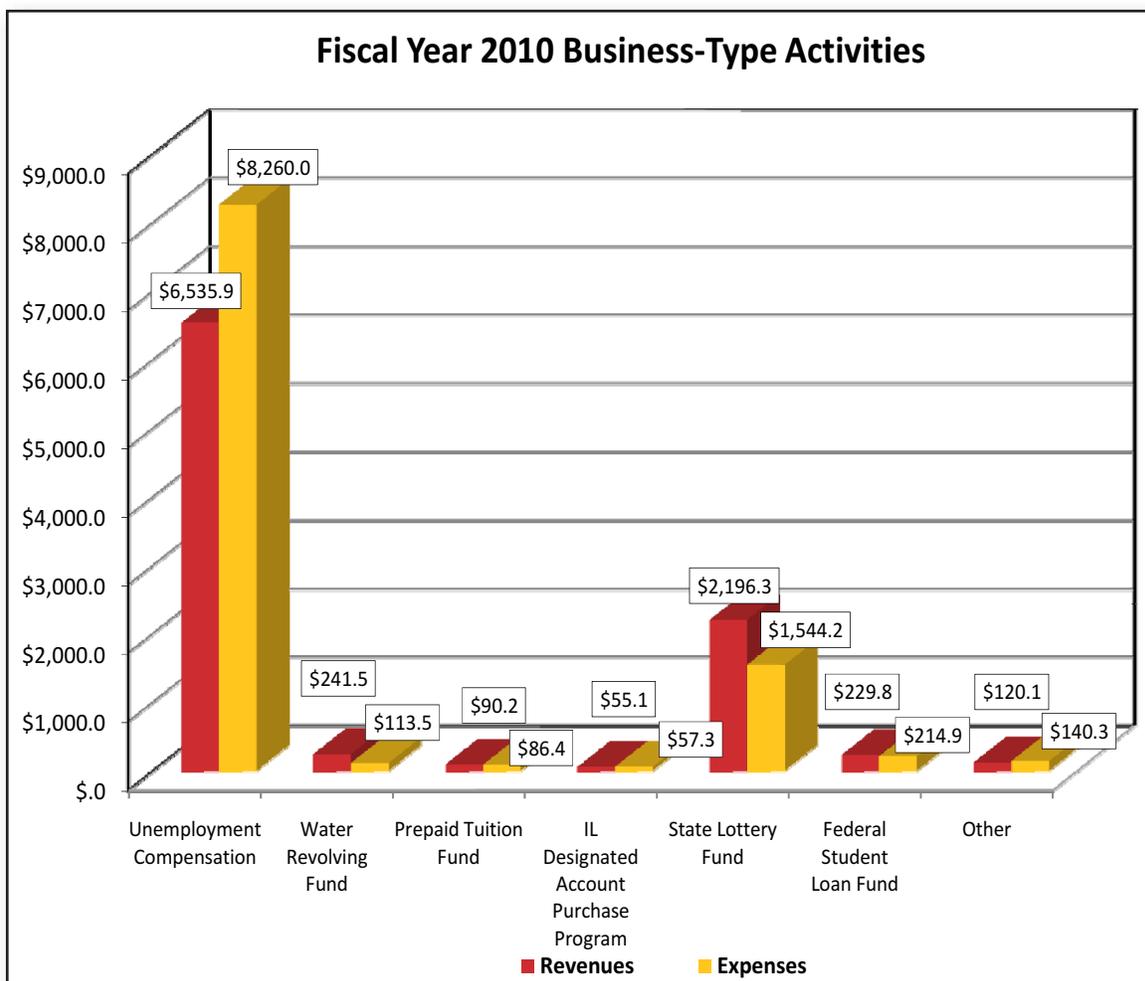
BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

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

The state's main business-type activities are providing unemployment insurance benefit claims, lending to local governments for drinking water and wastewater infrastructure facilities (Water Revolving Fund), lending to full-time college

students (Illinois Designated Account Purchase Program), operating the State Lottery, and purchasing defaulted student loans (Federal Student Fund). The revenues and expenses of each of these activities are presented in the chart below. The excess profits of the State Lottery Fund are transferred out to support elementary and secondary education. ■

GAAP BASIS



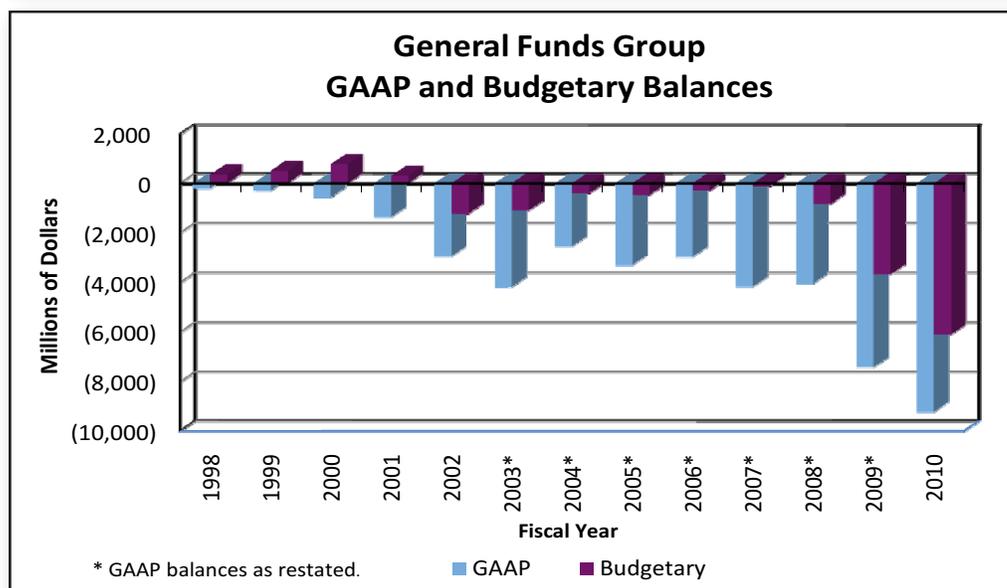
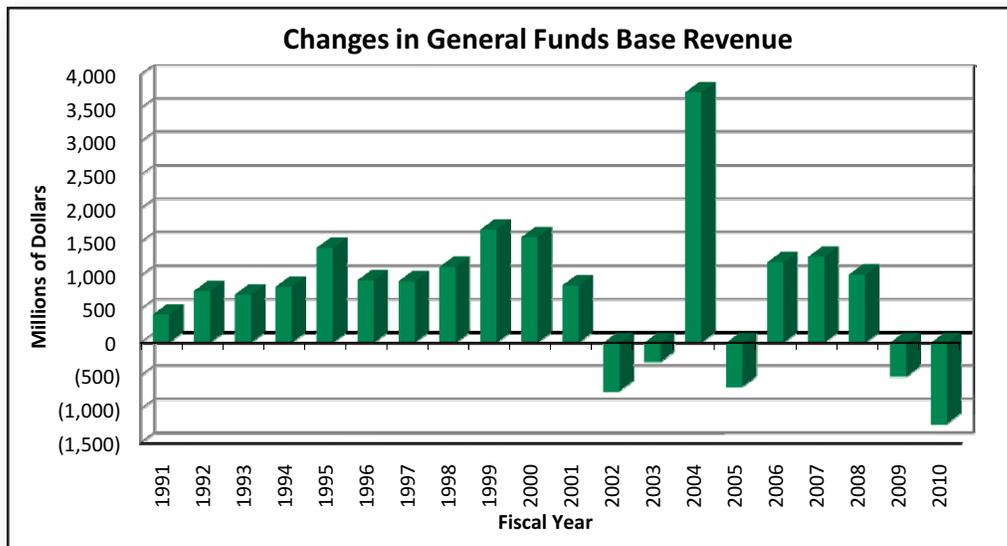
BUDGETARY BASIS

Fiscal Summary

For fiscal year 2010, General Funds base revenues decreased \$1.211 billion. Revenues were impacted by the economy as the state's largest sources of revenue, income and sales taxes experienced significant declines for the year. Base expenditures fell \$3.354 billion for the year. Spending declines were due primarily to decreases in retirement and Medicaid expenditures as alternative funds were used to assist these payments.

Fiscal year 2010 resulted in a dramatic deterioration in the General Funds budgetary balance (measured on a cash basis). The balance decreased from a \$3.673 billion *deficit* in fiscal year 2009 to a \$6.094 billion *deficit* this year.

The state's General Funds GAAP balance decreased from a \$7.422 billion deficit in fiscal year 2009, to an \$9.239 billion deficit in fiscal year 2010.



General Funds Base Revenue

General Funds total revenues declined \$1.791 billion or 5.6% in fiscal year 2010, decreasing to \$30.329 billion from \$32.120 billion in fiscal year 2009. Excluding the transfer of \$276 million from the Budget Stabilization Fund, short-term borrowing of \$1.25 billion and \$870 million in cash flow transfers, base revenues decreased \$1.211 billion or 4.2%. The economic recession has continued to impact various sources of state revenue. Income tax receipts decreased \$1.062 billion while sales tax receipts declined \$465 million. These decreases were primarily responsible for the decline in base revenues this year. Partially offsetting this decrease

Because of the lingering effects of the recession, personal income taxes decreased \$712 million or 7.7%. Over the year, employment in Illinois decreased by 222,200 jobs and nationally wage & salary income fell 1.5%. While the stock market had a modest increase for the year, it remained well below the level of two years ago. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds declined \$350 million, or 20.5%, as losses from prior years and other deductions offset the impact of growth in before-tax corporate profits seen nationally of 39.2% in fiscal year 2010.

| | Fiscal Year | | | | | | | | | | Change From FY2009 to FY2010 | |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------------------------|----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Amount | Percent |
| Personal Income Tax | \$ 7,996 | \$ 7,471 | \$ 7,341 | \$ 7,272 | \$ 7,979 | \$ 8,635 | \$ 9,408 | \$ 10,320 | \$ 9,223 | \$ 8,511 | \$ (712) | (7.7) % |
| Corporate Income Tax | 1,036 | 803 | 738 | 936 | 1,172 | 1,428 | 1,750 | 1,860 | 1,710 | 1,360 | (350) | (20.5) |
| Sales Taxes | 5,958 | 6,051 | 6,059 | 6,331 | 6,595 | 7,092 | 7,136 | 7,215 | 6,773 | 6,308 | (465) | (6.9) |
| Gaming Sources: | | | | | | | | | | | | |
| Lottery Fund | 501 | 555 | 540 | 570 | 614 | 670 | 622 | 657 | 625 | 625 | 0 | 0.0 |
| Riverboat Gaming | 460 | 470 | 554 | 663 | 698 | 689 | 685 | 564 | 430 | 383 | (47) | (10.9) |
| Miscellaneous | 7 | 16 | 11 | 13 | 12 | 8 | 9 | 6 | 5 | 4 | (1) | (20.0) |
| Total, Gaming | 968 | 1,041 | 1,105 | 1,246 | 1,324 | 1,367 | 1,316 | 1,227 | 1,060 | 1,012 | (48) | (4.5) |
| Public Utility Taxes | 1,146 | 1,104 | 1,006 | 1,079 | 1,056 | 1,074 | 1,131 | 1,157 | 1,168 | 1,089 | (79) | (6.8) |
| Other Tax Sources | 2,230 | 2,207 | 2,007 | 2,225 | 2,430 | 2,295 | 2,261 | 2,387 | 2,106 | 2,062 | (44) | (2.1) |
| Other Transfers In | 452 | 444 | 890 | 2,545 | 1,347 | 743 | 935 | 678 | 537 | 1,671 | 1,134 | 211.2 |
| Base State Sources | \$ 19,786 | \$ 19,121 | \$ 19,146 | \$ 21,634 | \$ 21,903 | \$ 22,634 | \$ 23,937 | \$ 24,844 | \$ 22,577 | \$ 22,013 | \$ (564) | (2.5) % |
| Federal Sources | 4,320 | 4,258 | 3,940 | 5,189 | 4,257 | 4,725 | 4,703 | 4,815 | 6,567 | 5,920 | (647) | (9.9) |
| Total Base Revenue | \$ 24,106 | \$ 23,379 | \$ 23,086 | \$ 26,823 | \$ 26,160 | \$ 27,359 | \$ 28,640 | \$ 29,659 | \$ 29,144 | \$ 27,933 | \$ (1,211) | (4.2) % |
| Transfer from Budget | | | | | | | | | | | | |
| Stabilization Fund | 0 | 226 | 226 | 226 | 276 | 276 | 276 | 276 | 276 | 276 | 0 | 0.0 |
| Cash Flow Transfer | 0 | 0 | 0 | 0 | 982 | 0 | 456 | 1,503 | 300 | 870 | 570 | N/A |
| Short-Term Borrowing | 0 | 0 | 1,675 | 0 | 765 | 1,000 | 900 | 2,400 | 2,400 | 1,250 | (1,150) | (47.9) |
| Total Revenue | \$ 24,106 | \$ 23,605 | \$ 24,987 | \$ 27,049 | \$ 28,183 | \$ 28,635 | \$ 30,272 | \$ 33,838 | \$ 32,120 | \$ 30,329 | \$ (1,791) | (5.6) % |

was the deposit of a portion of the \$3.5 billion pension bond issue in January 2010. In addition, federal revenues (including those from the American Recovery and Reinvestment Act of 2009 which included an enhanced Medicaid matching rate and other grants from the federal Fiscal Stabilization Fund) declined in fiscal year 2010.

State sources decreased \$564 million or 2.5% as cash receipts fell \$1.650 billion and transfers in from other funds increased by \$1.086 billion. Federal sources decreased \$647 million or 9.9%.

Retail sales for the year continued to reflect the aftereffects of the recession as the processing of sales tax vehicle transaction forms (auto sales) declined approximately 5.0%. As a result, revenues from the state sales tax totaled \$6.308 billion, a decrease of \$465 million or 6.9%.

Gaming revenues, which were affected by the recession as well, declined \$48 million or 4.5% for the year to \$1.012 billion. Riverboat gaming revenues decreased \$47 million while Lottery transfers into the Common School Fund were unchanged due to a provision in the legislation to privatize the operations of the Lottery.

General Funds Base Revenue *concluded*

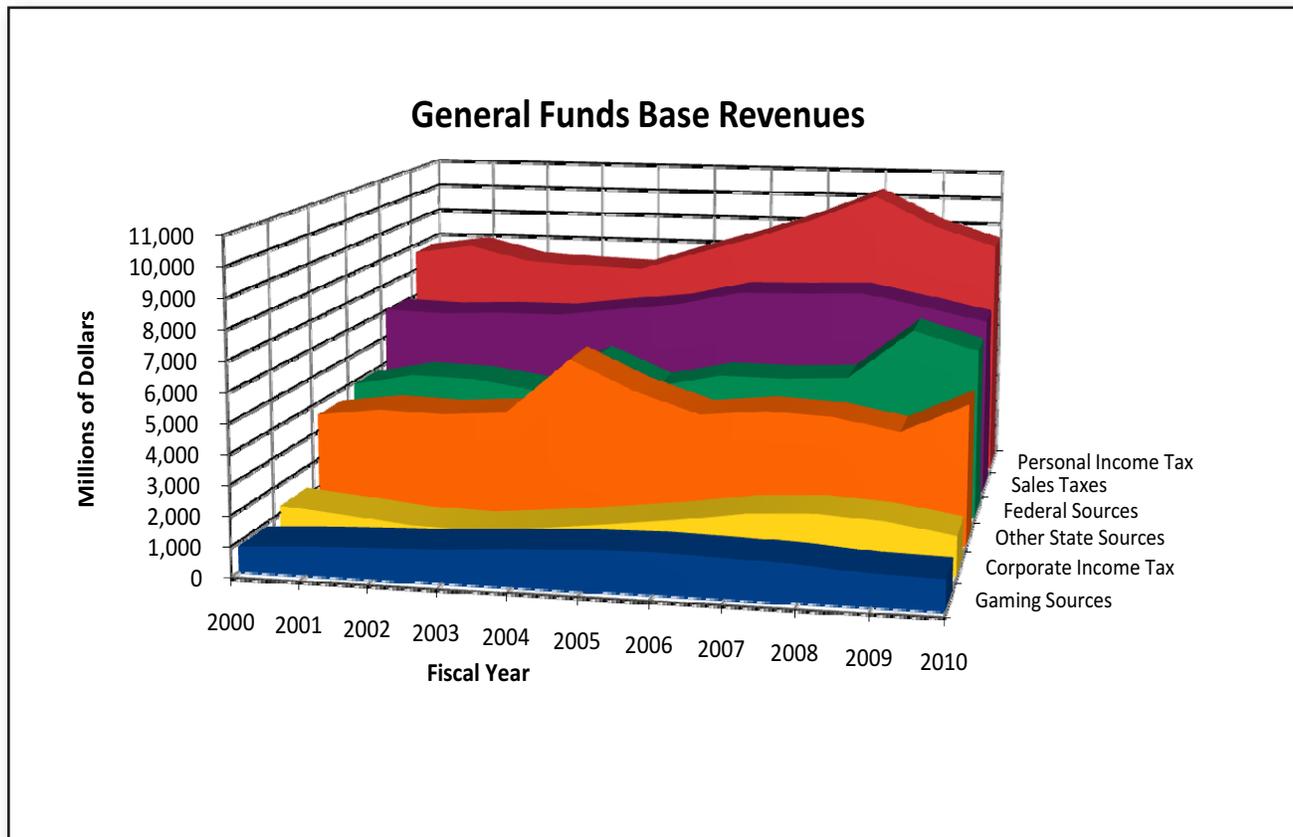
For fiscal year 2010, public utility taxes decreased 6.8% with telecommunications tax revenues \$44 million lower, while revenues from the natural gas tax decreased \$13 million and electric tax receipts were down \$22 million. Gas and electric are consumption-based taxes and change with increases or decreases in usage.

Receipts from other tax sources were down \$44 million or 2.1% for the year. Investment income declined \$55 million due to lower interest rates and investable balances. Inheritance tax receipts decreased \$45 million.

The \$1.134 billion increase for other transfers in was due primarily from a one-time \$843 million transfer from the Pension Contribution Fund (after the sale of bonds to cover Illinois' payments to its state retirement systems) and \$283 million from legislated fund sweeps.

Federal sources decreased \$647 million or 9.9% in fiscal year 2010 to a total of \$5.920 billion. This decrease was due to a decline in General Funds Medicaid spending as some of these expenditures were shifted to other funds thereby reducing federal reimbursements. However, revenues tied to the federal stimulus legislation increased slightly.

For fiscal year 2010, income and sales taxes brought in 57.9% of total General Funds base revenues, while federal sources and other sources accounted for 21.2% and 20.9%, respectively. The economy remains a major factor in determining General Funds revenue performance.



General Funds Base Spending

In prior years, comparative analysis has been utilized between categories of spending such as awards and grants and operations. Spending by major agencies or groups of agencies was compared by category. However, due to the manner in which the fiscal year 2010's budget was appropriated, that level of detail is incomparable to previous fiscal years and the table below instead presents comparisons by individual agencies.

General Funds base expenditures for fiscal year 2010, which excludes a \$2.276 billion short-term borrowing repayment, totaled \$29.605 billion, a decrease of \$3.354 billion or 10.2% from fiscal year 2009 spending. Of this total, spending by state agencies decreased by \$3.473 billion and regular transfers out increased by \$119 million. Including the fiscal year 2010 decrease, base spending from the General Funds has increased by an average of \$558 million over the last nine fiscal years.

Looking at all cash expenditures, Illinois general funds short-term borrowing repayment was up \$852 million and cash

flow transfers were up \$570 million. This does not include repayment of the Budget Stabilization Fund as the state did not have sufficient revenues to make that transfer by June 30, 2010.

For fiscal year 2010, the State Board of Education, the Departments of Healthcare and Family Services (formerly the Department of Public Aid), Human Services, Corrections, and Higher Education spending accounted for \$21.895 billion or 83.2% of all agency spending.

The State Board of Education had the highest state agency spending in fiscal year 2010 with \$7.273 billion or 27.7% of total state agency spending. The State Board of Education's spending decreased slightly by \$84 million or 1.1% from fiscal year 2009. General state aid to school districts accounts for the largest portion (63.2%) or \$4.6 billion of State Board spending.

General Funds Expenditures (From Current Year Appropriations)

By Major Agency (Millions of Dollars)

| Agency | Fiscal Year | | | | | | | | | | Change from FY 2009 to FY 2010 | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------------------------|-----------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Amount | Percent |
| State Board of Education | \$ 5,074 | \$ 5,292 | \$ 5,133 | \$ 5,471 | \$ 5,751 | \$ 6,045 | \$ 6,472 | \$ 6,995 | \$ 7,357 | \$ 7,273 | \$ (84) | (1.1) % |
| Healthcare and Family Services (Public Aid) | 5,318 | 5,153 | 5,099 | 5,690 | 4,990 | 7,343 | 7,725 | 8,089 | 9,556 | 7,239 | (2,317) | (24.2) |
| Human Services | 3,728 | 3,668 | 3,502 | 3,597 | 3,747 | 3,817 | 3,885 | 4,086 | 4,144 | 3,997 | (147) | (3.5) |
| Higher Education | 2,470 | 2,637 | 2,471 | 2,308 | 2,210 | 2,190 | 2,269 | 2,195 | 2,398 | 2,230 | (168) | (7.0) |
| Corrections | 1,188 | 1,243 | 1,162 | 1,183 | 1,198 | 1,170 | 1,119 | 1,208 | 1,308 | 1,156 | (152) | (11.6) |
| Teachers Retirement | 709 | 865 | 923 | 805 | 942 | 610 | 814 | 1,110 | 1,527 | 914 | (613) | (40.1) |
| Children and Family Services | 920 | 904 | 824 | 795 | 754 | 803 | 771 | 887 | 906 | 847 | (59) | (6.5) |
| Aging | 232 | 239 | 242 | 256 | 331 | 352 | 421 | 458 | 537 | 653 | 116 | 21.6 |
| Judicial Agencies | 309 | 335 | 328 | 335 | 325 | 305 | 322 | 351 | 376 | 310 | (66) | (17.6) |
| State Police | 232 | 231 | 183 | 177 | 175 | 173 | 193 | 210 | 215 | 265 | 50 | 23.3 |
| Revenue | 250 | 244 | 145 | 159 | 125 | 127 | 148 | 156 | 155 | 128 | (27) | (17.4) |
| Central Management Services | 722 | 756 | 840 | 1,045 | 983 | 95 | 105 | 82 | 74 | 88 | 14 | 18.9 |
| Other Agencies | 1,220 | 1,178 | 1,057 | 857 | 1,011 | 1,083 | 1,267 | 1,344 | 1,235 | 1,218 | (17) | (1.4) |
| Prior Year Adjustments | (6) | (5) | (15) | (48) | 25 | (10) | (11) | (14) | (14) | (17) | (3) | N/A |
| Total, General Funds Warrants Issued | \$ 22,366 | \$ 22,740 | \$ 21,894 | \$ 22,630 | \$ 22,567 | \$ 24,103 | \$ 25,500 | \$ 27,157 | \$ 29,774 | \$ 26,301 | \$ (3,473) | (11.7) % |
| Regular Transfers Out | 2,217 | 2,159 | 2,031 | 2,519 | 3,657 | 3,059 | 2,973 | 3,201 | 3,185 | 3,304 | 119 | 3.7 |
| Base General Funds Expenditures | \$ 24,583 | \$ 24,899 | \$ 23,925 | \$ 25,149 | \$ 26,224 | \$ 27,162 | \$ 28,473 | \$ 30,358 | \$ 32,959 | \$ 29,605 | \$ (3,354) | (10.2) % |
| Short-Term Borrowing Repayment | 0 | 0 | 710 | 990 | 768 | 1,014 | 11 | 1,503 | 1,424 | 2,276 | 852 | 59.8 |
| Transfer to Budget Stabilization Fund | 0 | 226 | 226 | 226 | 276 | 276 | 276 | 276 | 276 | 0 | (276) | (100.0) |
| Cash Flow Transfer | 0 | 0 | 0 | 0 | 979 | 0 | 1,356 | 2,400 | 300 | 870 | 570 | 190.0 |
| Total, General Funds Expenditures | \$ 24,583 | \$ 25,125 | \$ 24,861 | \$ 26,365 | \$ 28,247 | \$ 28,452 | \$ 30,116 | \$ 34,537 | \$ 34,959 | \$ 32,751 | \$ (2,208) | (6.3) % |

General Funds Base Spending *concluded*

The Department of Healthcare and Family Services (DHFS) was the agency with the second highest spending in fiscal year 2010 and the largest for six out of the last ten years. DHFS spending of \$7.239 billion in fiscal year 2010 is \$2.317 billion, or 24.2%, less than fiscal year 2009. The decline in DHFS spending was due a surge in spending at the end of the prior year to take advantage of the increased reimbursement under the federal stimulus program which resulted in a decrease in appropriations to the agency this year. In addition, \$1.4 billion in fiscal year 2010 spending was diverted from the General Funds to the Healthcare Provider Relief Fund.

In fiscal year 2010, the Department of Human Services spending decreased to \$3.997 billion from \$4.144 billion, a decrease of \$147 million or 3.5%. Higher Education agencies spending decreased from \$2.398 billion in fiscal year 2009 to \$2.230 billion, a decrease of 7% in fiscal year 2010. Fiscal year 2010 Corrections spending of \$1.156 billion was a decline of \$152 million or 11.6% from fiscal year 2009.

After DHFS, the Teachers Retirement System had the second largest decline in spending, as expenditures decreased \$613 million or 40.1%. In January 2010, Illinois issued \$3.5 billion in pension bonds to pay the state's General Funds obligations to the state retirement systems. Some of the revenues were used to repay the General Funds for retirement payments already made while the remaining monies were distributed to the retirement systems. This accounts for the declines in spending by the Teachers and University Retirement Systems as well as some of the decreases in other agencies spending.

Fiscal Climate • Fiscal Year 2010

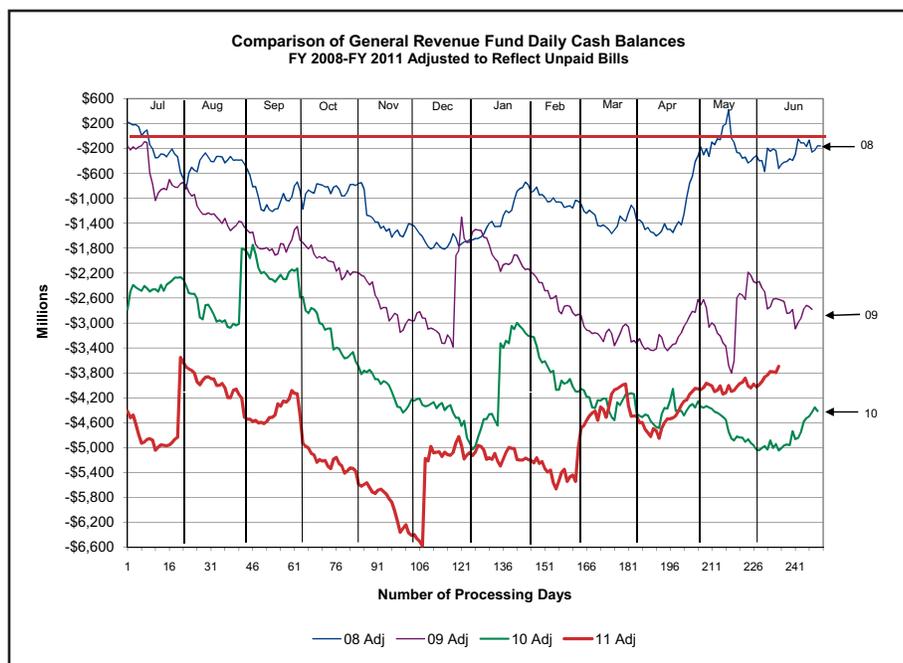
With lower balances (cash and budgetary) and a backlog of unpaid bills, fiscal year 2010 began with the worst fiscal position in modern times. On June 30th, fiscal year 2009 ended with unpaid bills totaling \$2.785 billion and with \$1.168 billion in fiscal year 2009 expenditures in July and August, fiscal year 2009 lapse period spending totaled \$3.953 billion. Lapse period spending and the repayment of \$1 billion in short-term borrowing from May 2009 resulted in over 17.7% of fiscal year 2010 state source revenues being used to pay fiscal year 2009 liabilities. With the economy still weak from the recession and spending commitments remaining high, it was apparent that the financial position of the state would continue to deteriorate.

In July, revenues continued to decline but expenditures also fell as there was no influx of Medicaid payments as in past years (due to the short-term borrowing in May 2009 which accelerated some Medicaid payments). With economic revenues still declining, the state utilized \$1.25 billion in short-term borrowing in August 2009 to pay lapse period liabilities. By the end of the first quarter of the fiscal year, payables totaled \$2.913 billion, an increase of \$1.090 billion over the prior year. Payment delays reached 61 days setting a record for that point in the fiscal year. Several announced fiscal year 2010 budget relief items, including a pension bond issue and a debt restructuring, had not materialized, worsening the cash flow position.

By the mid-point of the fiscal year, the state's cash position had worsened even further. Economy-driven revenues continued to decline and spending grew as budget relief measures still failed to appear. At the end of December 2009, the backlog of unpaid bills reached a staggering \$5.12 billion. Payment delays were 92 days for vouchers and 122 days for transfers to other funds. Both the backlog of unpaid bills and the days payments were delayed were at record levels at the end of the first half of the fiscal year.

In January 2010, the state issued \$3.466 billion in bonds (to be repaid over five years) for the payment for pensions. This bond sale, which also repaid the General Funds \$843 million for retirement payments already made, reduced the backlog and payment delays but the impact was temporary. A scaled back general obligation bond refunding sale was completed in February, but the savings barely impacted debt payments for the remainder of the year.

During the third quarter, individual income taxes continued to decrease compared to the previous year while the declines in corporate income taxes and sales taxes eased slightly. Base revenues were up at the end the quarter with transfers in up due to the pension bonds and federal revenues up due the timing of federal stimulus monies offsetting the declines in economic revenues. However, by the end of March the backlog of unpaid bills was \$4.496 billion including payment and transfers delays from the first quarter.



BUDGETARY BASIS

Fiscal Climate *continued*

In the fourth quarter of the fiscal year, income taxes continued to decline while sales taxes increased, although sales taxes were down across the whole year. Federal revenues decreased in the fourth quarter due to timing as federal stimulus revenues for education were received in the third quarter of fiscal year 2010 compared to the fourth quarter of 2009. Even though base spending decreased, transfers to repay short-term borrowing totaled \$1.668 billion in the fourth quarter. For the year, transfers in increased due to the pension bonds transfers, legislated transfers from the Capital Projects Fund and fund sweeps. The increase from transfers was insufficient to offset the declines in all other revenues. As a result, fiscal year 2010 still ended with unpaid bills totaling \$4.492 billion compared to \$2.785 billion the prior year.

By the end of the year, the delay in paying vouchers was 153 working days while some transfers had been delayed the entire fiscal year and the state was unable to transfer the \$276 million back to the Budget Stabilization Fund. In addition, additional vouchers totaling \$1.732 billion were presented during the fiscal year 2010 lapse period which was extended for the year to December 31st to allow the state additional

time to close out fiscal year 2010. As a result, the General Funds ended the year with a negative budgetary balance of \$6.094 billion. Unfortunately, the backlog of bills and the fiscal position of the state continued to set records.

A Look at Fiscal Year 2011

With the state's worsening fiscal position, fiscal year 2011 began on an ominous note. Three revenue enhancements in the fiscal year 2011 budget agreement were passed to help alleviate the cash flow position of the state. These included: approximately \$1.3 billion from the tobacco settlement securitization initiative, up to an estimated \$1 billion in inter-fund borrowing authority, and a tax amnesty program. Even with the continuation of federal stimulus funding (primarily for Medicaid bills) and a decline in fiscal year 2011 appropriations predicated on another borrowing to pay the fiscal year 2011 pension liabilities, the state's ability to pay its bills did not improve. With fiscal year 2010 General Funds lapse period obligations of \$6.224 billion, over 20% of state sources of revenue in fiscal year 2011 were needed to pay fiscal year 2010 liabilities.

**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 |
| 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 * | (4,171) | (1,201) | (135) | 156 | (525) | 277 |
| 2008 * | (4,035) | 136 | (834) | (699) | (917) | (392) |
| 2009 * | (7,422) | (3,387) | (3,673) | (2,839) | (4,040) | (3,123) |
| 2010 | (9,239) | (1,817) | (6,094) | (2,421) | (6,142) | (2,102) |

* GAAP balance as restated.

Fiscal Climate *concluded*

Even with a short-term borrowing of \$1.3 billion in July 2010 to help pay lapse period liabilities, the state ended the first quarter in September with \$5.510 billion in unpaid bills and payment delays from as far back as March. Several budget relief items, including the pension bonds and tobacco securitization, were delayed and with only \$263 million in inter-fund borrowing, the cash flow position worsened. However, economic revenues improved with income taxes increasing and sales tax revenues flat.

By the end of the second quarter, a few of the revenue enhancements had helped improve the cash flow position but only temporarily. By December 2010, the state General Funds received \$392 million in tax amnesty revenues, \$1.25 billion from the tobacco securitization bonds and a total of \$354 million in inter-fund borrowing. The backlog of unpaid bills totaled \$6.382 billion at the end of December but the state was able to pay all fiscal year 2010 vouchers by the end of the quarter. A portion of the December backlog (\$1.8 billion) was pension obligations as the authorization for the issue of pension bonds had not passed as of that time.

Payment delays went back to the beginning of the fiscal year as the state had focused on paying lapse period obligations.

On January 13, 2011, the Governor signed legislation increasing the state's income taxes from January 1, 2011 through December 31, 2014. The individual income tax rate was increased from 3% to 5% and the corporate rate increased from 7.3% to 9.5% (including the personal property replacement tax). Legislation was passed which authorized the issue of pension bonds for fiscal year 2011. The state issued \$3.7 billion in pension bonds in February with the proceeds received in March.

By the end of the third quarter of fiscal year 2011, the General Funds backlog had fallen to \$4.515 billion due to the issuance of the March 2011 pension bonds and the additional revenues from the tax increase. The backlog continued to decline during the fourth quarter of the year. It appears that fiscal year 2011 will show a modest improvement in the budgetary deficit. ■

