

EXECUTIVE SUMMARY

FISCAL YEAR ENDED
JUNE 30, 2011



STATE OF ILLINOIS
COMPTROLLER
JUDY BAAR TOPINKA

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STATE OF ILLINOIS
COMPTROLLER
JUDY BAAR TOPINKA



June, 2012

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.illinoiscomptroller.com, or by calling (217) 782-6000 or (312) 814-2451.

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

In this *Executive Summary*, as in past reports, we 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 2011 report notes that Illinois' cash position improved as the budgetary deficit decreased by \$1.587 billion from a deficit of \$6.094 billion to a deficit of \$4.507 billion. The General Fund GAAP balance also improved slightly. The state ended fiscal year 2011 with a negative General Fund balance of \$8.080 billion, indicating that the state's GAAP deficit decreased by \$738 million compared to the prior year. Section 25 liabilities - essentially fiscal year 2011 medical bills paid for with fiscal year 2012 appropriations - increased this year, totaling \$1.841 billion as of June 30, 2011.

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, 2010



Linda C. Davidson
President

Jeffrey L. Esser
Executive Director

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Photo "Sue" T-rex, Courtesy of Field Museum of Natural History, Chicago, Illinois



Photo Courtesy of Art Institute, Chicago, Illinois

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 20 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 there were twenty-one major departments in fiscal year 2011 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 68,146 persons at the end of fiscal year 2011, 404 more than one year earlier. The Department of Human Services (13,611), Corrections (11,834), Transportation (5,878), and the Secretary of State (4,388) account for just over half (52.4%) of all direct government employees.

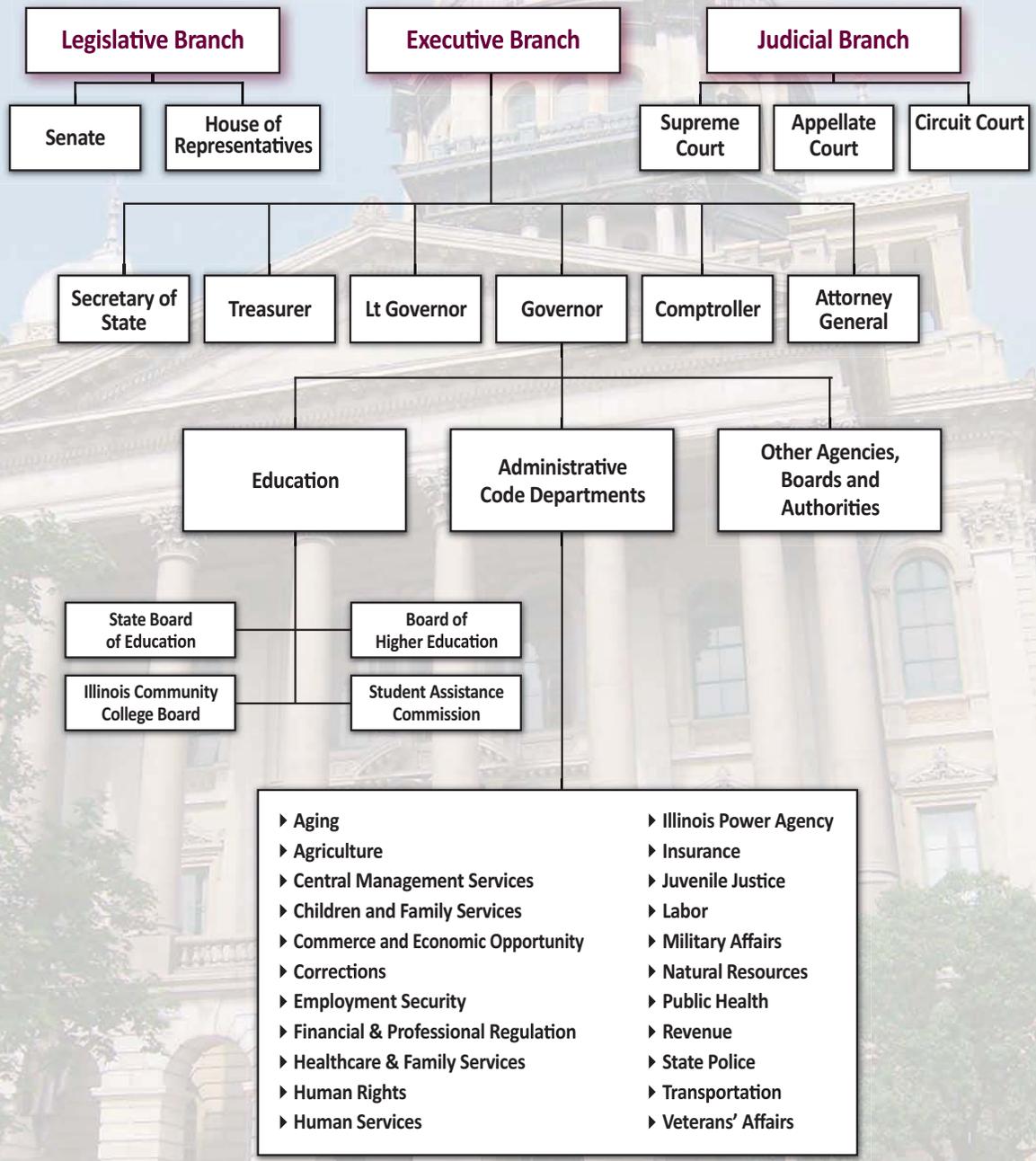
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 868 school districts and 3,904 schools. In fiscal year 2011, nearly 2.1 million public school children were instructed by over 112,000 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 2011 fiscal year, nearly 585,000 students were enrolled in Illinois' public colleges and universities, and about 322,000 were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. In fiscal year 2011, the average monthly count of enrolled individuals for which the Department of Healthcare and Family Services provided means-tested medical coverage was approximately 2.7 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 2011 were \$61.3 billion or approximately \$4,750 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$55.2 billion for the governmental funds with income taxes (\$14.4 billion), federal revenues (\$20.4 billion), and sales taxes (\$9.6 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$24.6 billion), and Education (\$15.7 billion). ■

ELECTORATE



Economic Outlook • Fiscal Year 2011

The recovery from the severe recession began in Illinois in fiscal year 2011. Each of the primary measures of Illinois economic activity showed signs of modest improvement during the fiscal year. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.643 million workers in fiscal year 2011, an increase of 42,000 jobs or 0.8% above 2010 employment, but 401,000 jobs or 6.6% below peak employment of 6.045 million jobs in fiscal 2001. A second Illinois employment estimate, obtained through household surveys, also showed an increase in Illinois employment. According to these surveys, an average of 6.006 million Illinoisans was employed in fiscal year 2011, up 108,000, or 1.8%, from the prior year employment level.

The average Illinois unemployment rate decreased from 10.8% in fiscal year 2010 to 9.3% in fiscal year 2011. The decreased average unemployment rate was caused by the increase in employment levels and the decline in the average number of unemployed from 714 thousand in fiscal year 2010 to 619 thousand in fiscal year 2011. The average Illinois unemployment rate in fiscal year 2011 was still more than double the 4.6% average rate for fiscal year 2007.

The manufacturing sector stabilized in fiscal year 2011. Average manufacturing employment of 564,000 jobs was up 10,000 jobs from the prior year. Manufacturing employment was still down 343,000 jobs or 37.8% 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 3.3% in fiscal year 2011 as nominal personal income rose 5.3% and the consumer price index was up 2.0%. State personal income adjusted for inflation had decreased 3.1% in fiscal year 2009 and 2.9% in fiscal year 2010 ending a six year period of annual economic growth.

Fiscal Year 2012 and Beyond

The first half of fiscal year 2012 has seen a pause in the recovery from the recession in Illinois. The average Illinois unemployment rate was 9.9% for the first half year of the fiscal year as employment as measured through the household survey was down 41,000 or 0.7% from its prior year level.

The payroll employment data continued to show improvement with employment edging up 53,000 or 0.9% from its prior year level.

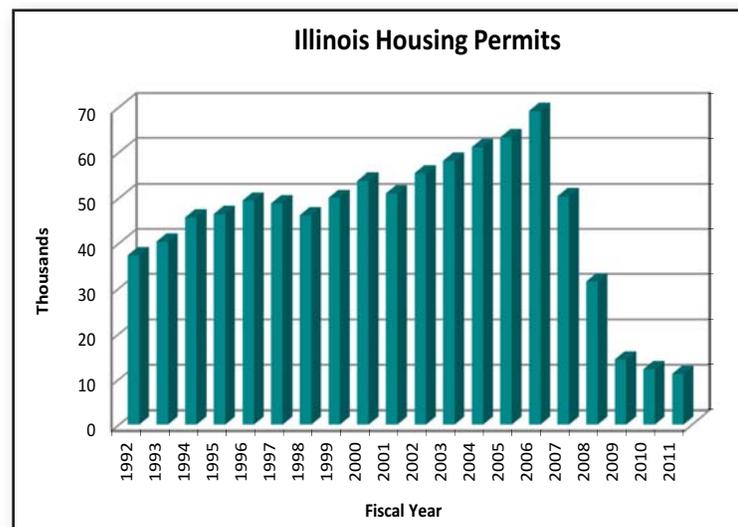
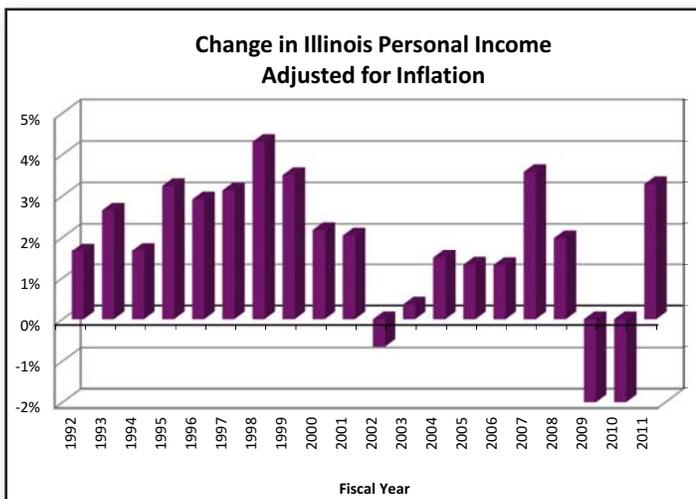
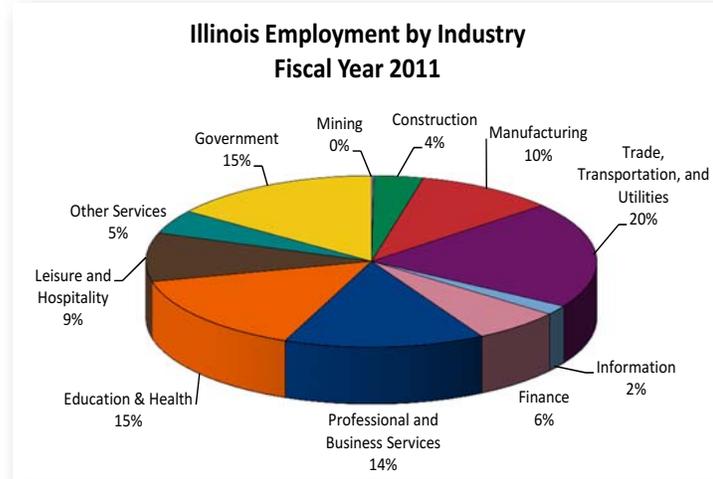
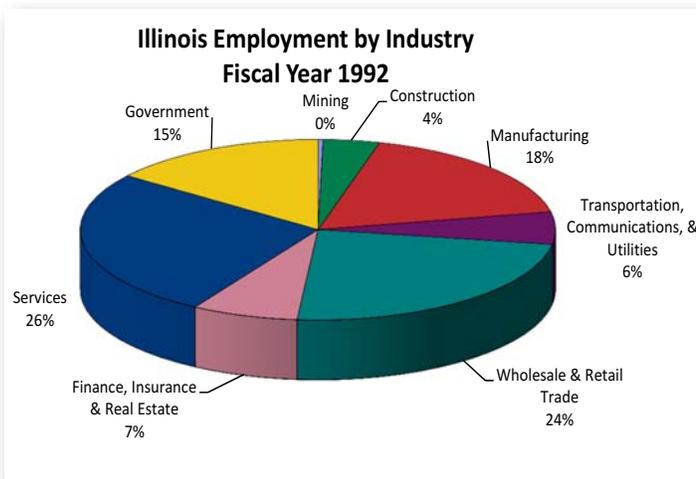
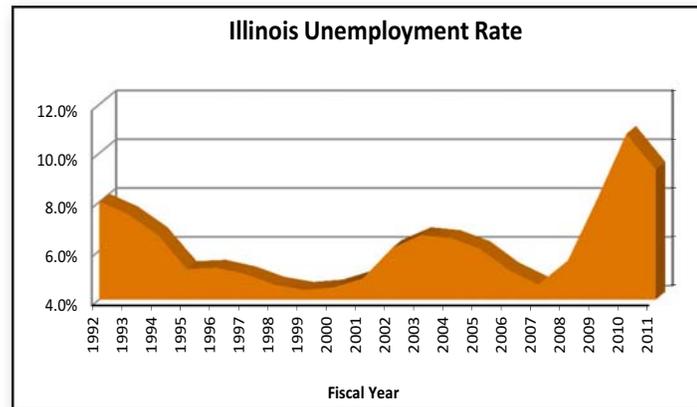
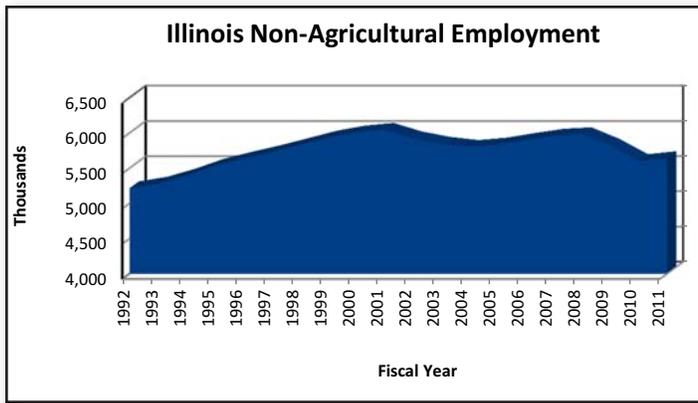
In working to restore its economy to economic health, Illinois can take advantage of its many strengths. Home to 31 of the Fortune 500 companies in 2011, Illinois is the business and financial center of the Midwest. Illinois is tightly integrated into the international economy. With exports of \$64.6 billion in calendar year 2011, Illinois ranked Illinois 6th 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 2010 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.

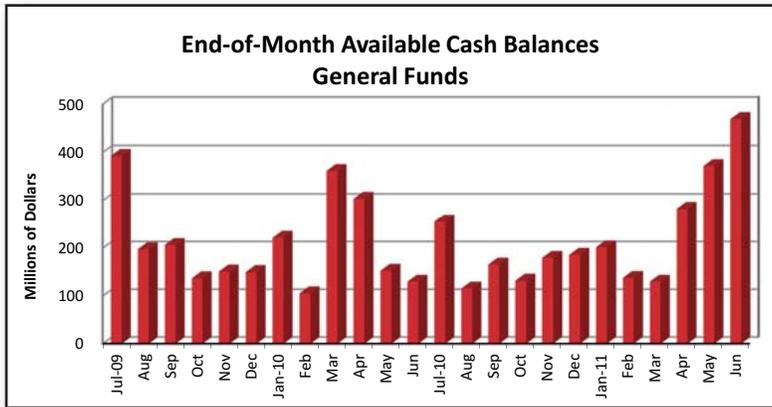
Illinois' educational resources include private universities such as the University of Chicago and Northwestern University as well as the twelve campus public system. In fiscal year 2011, Illinois private institutions served 322,000 students with another 205,000 served by the public universities. A statewide system of community colleges (380,000 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



Taxes Receivable

(in millions)	6/30/10	6/30/11	Change
Gross Balance	\$2,531	\$3,021	\$490
Uncollectibles	\$823	\$945	\$122

Major Unfunded and Long Term Liabilities

(in millions)	FY 2010	FY 2011
Net Pension Obligation	\$ 22,263	\$ 24,026
General Obligation Bonds	\$ 24,863	\$ 28,016
Build Illinois and Civic Center Bonds	\$ 2,499	\$ 2,314
Illinois Railsplitter Authority Bonds	\$ 0	\$ 1,503
Net Other Post-Employment Benefit Obligation	\$ 3,879	\$ 5,716

G.O. Bond Rating

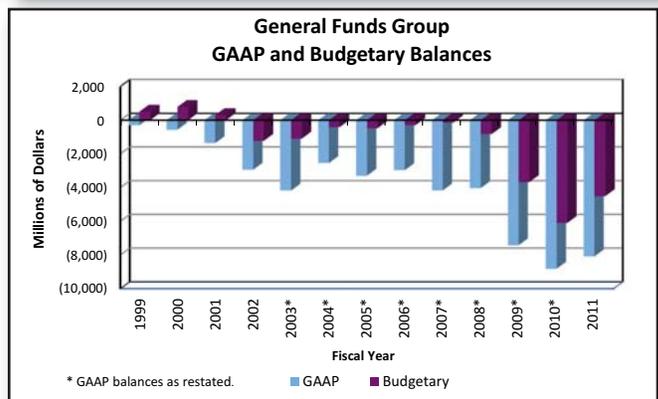
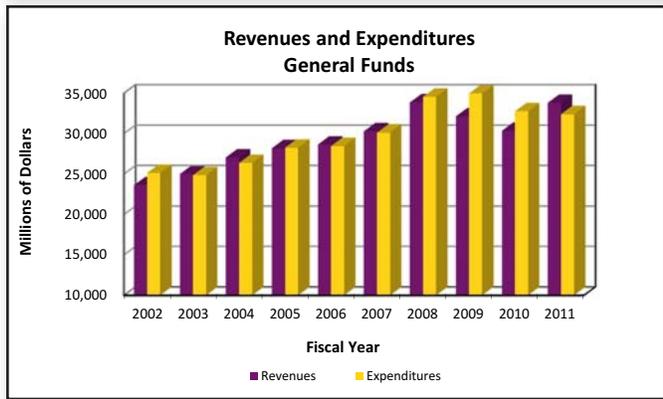
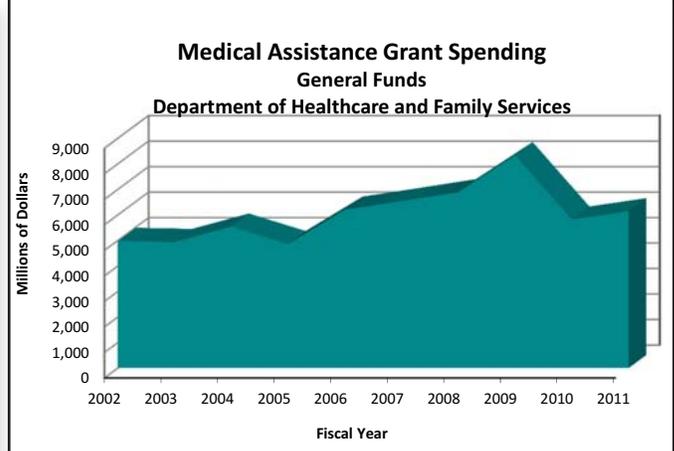
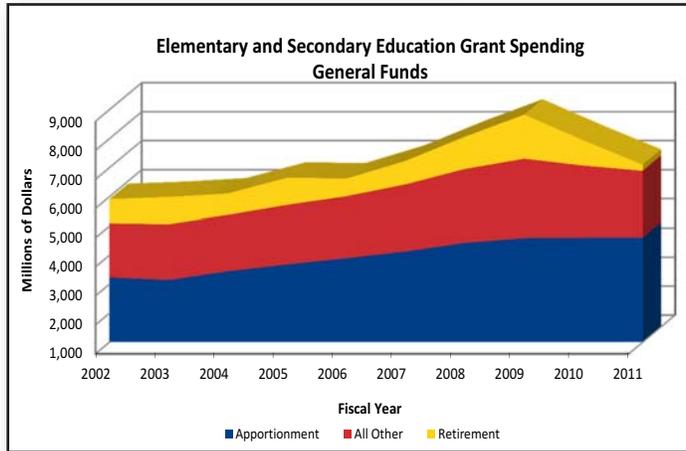
Moody's	A2
S&P	A+
Fitch	A
(as of May 2012)	

Fiscal Activity General Funds

(in millions)	FY 2010	FY 2011	Change
Beginning Balance	\$ 280	\$ 130	\$ (150)
Revenues	\$ 30,329	\$ 33,797	\$ 3,468
Expenditures	\$ 30,479	\$ 33,458	\$ 2,979
Ending Balance	\$ 130	\$ 469	\$ 339
Lapse Period Transactions	\$ 6,224	\$ 4,976	\$ (1,248)
Budgetary Balance	\$ (6,094)	\$ (4,507)	\$ 1,587

Section 25 Liabilities

(in millions)	6/30/10	6/30/11	Change
Liabilities	\$1,521	\$1,841	\$320



GAAP BASIS

GAAP Basis Financial Information Summary

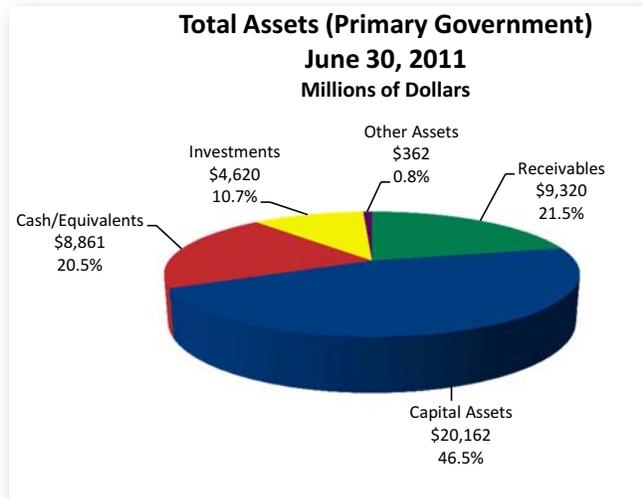
The following information has been condensed from the statements included in the State of Illinois *Comprehensive Annual Financial Report (CAFR)*.

ASSETS

Total assets of the State of Illinois at June 30, 2011, were approximately \$43.3 billion, an increase of \$1.3 billion from June 30, 2010. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised over \$20.2 billion (46.5%) of the state's total assets.

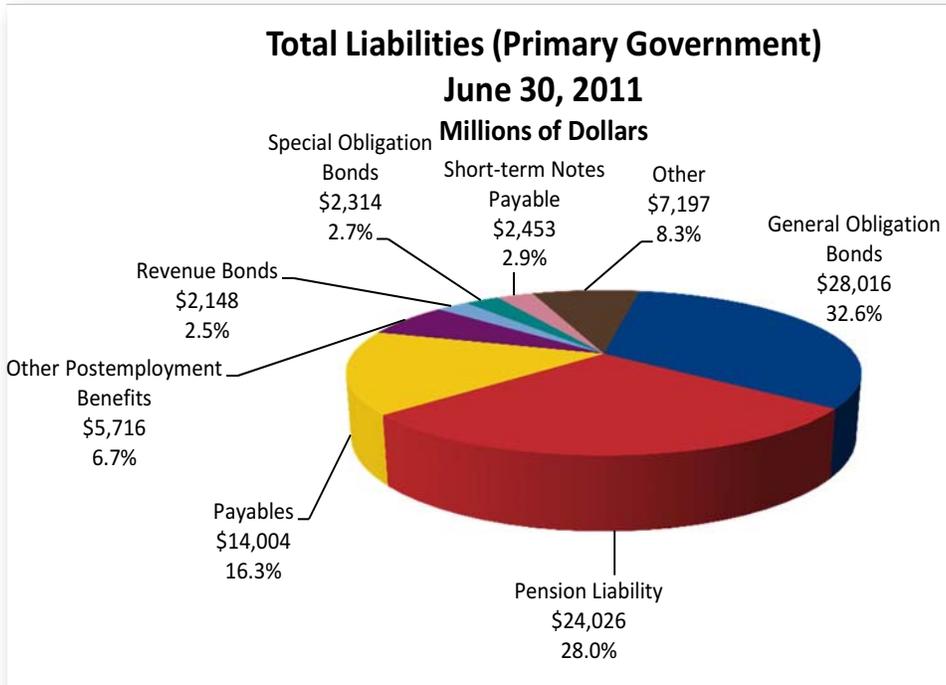
LIABILITIES

Total liabilities of the state were approximately \$85.9 billion at June 30, 2011, an increase of \$7.3 billion from June 30, 2010. The state's largest liability balances are the net pension obligation of \$24.0 billion (28.0%) and the general and special obligation debt liability of \$30.3 billion (35.3%).



Net Pension Obligation

The net pension obligation at June 30, 2011, for the state's five pension trust funds was \$24.0 billion, an increase of approximately \$1.8 billion from June 30, 2010. The net pension obligation is the difference between the annual actuarially required contributions and the actual contributions made to the state's retirement systems. The net pension obligation and the annual pension cost compared to state contributions can be seen in the bar charts on page 7.

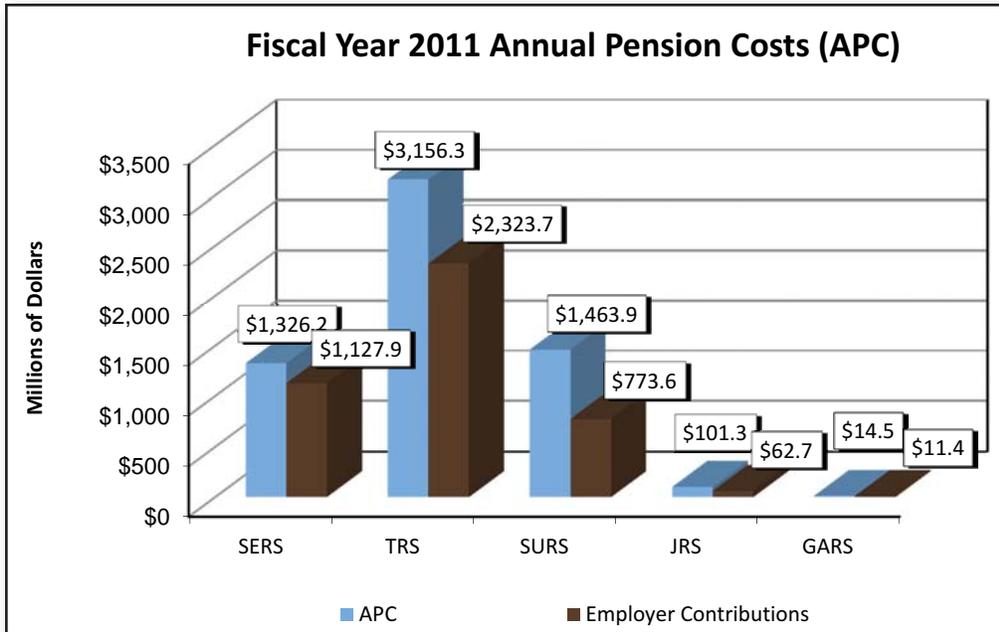


Funding Policy and Annual Pension Cost

Member contributions are based on fixed percentages set by statute ranging from 4.0% to 12.5%. The state's funding requirements have been established by statute (Public Act 88-593) effective July 1, 1995, and provide for a systematic 50-year funding plan with an ultimate goal to achieve "90%

funding" of the systems' liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the state to adapt to the increased financial commitment. Since the

Liabilities

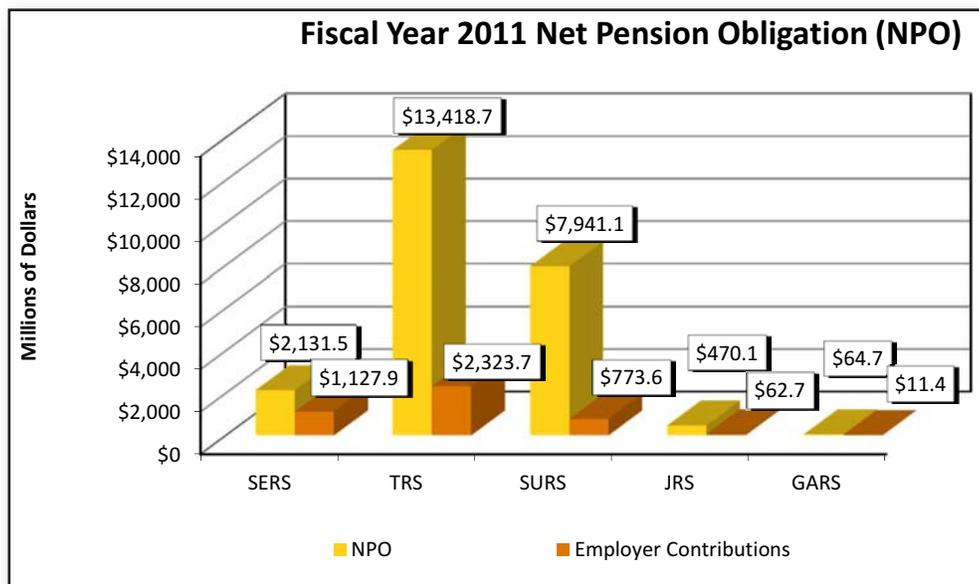


Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal contributions. However, the State met its funding requirement established by statutory law for the fiscal year ended June 30, 2011. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems

15-year phase in period ended June 30, 2010, the state’s contribution will remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved, absent any subsequent legislative changes. However, Public Act 94-0004 decreased 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 had no long-term effect on contributions.

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.

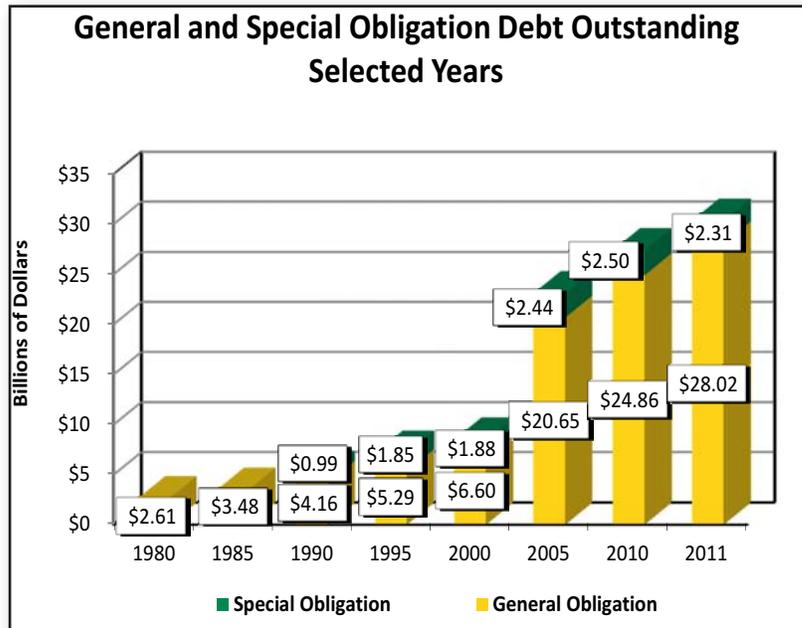
GAAP BASIS



Bonds/Debt

General and Special Obligation Bonds

General obligation bonds, excluding refunding bonds, aggregating \$4.9 billion were issued during fiscal year 2011 at interest rates ranging from 1.75% to 7.35%. No special obligation bonds were issued during fiscal year 2011. The increase in outstanding general and special obligation bonds since 1980 is shown to the right. The large increase between fiscal years 2000 and 2005 is due to the issuance of \$10 billion in general obligation bonds in 2003 to reduce the state's net pension obligation. Additional bonds were sold for pension payments in 2010 and 2011 that have contributed to the increase in the debt outstanding.



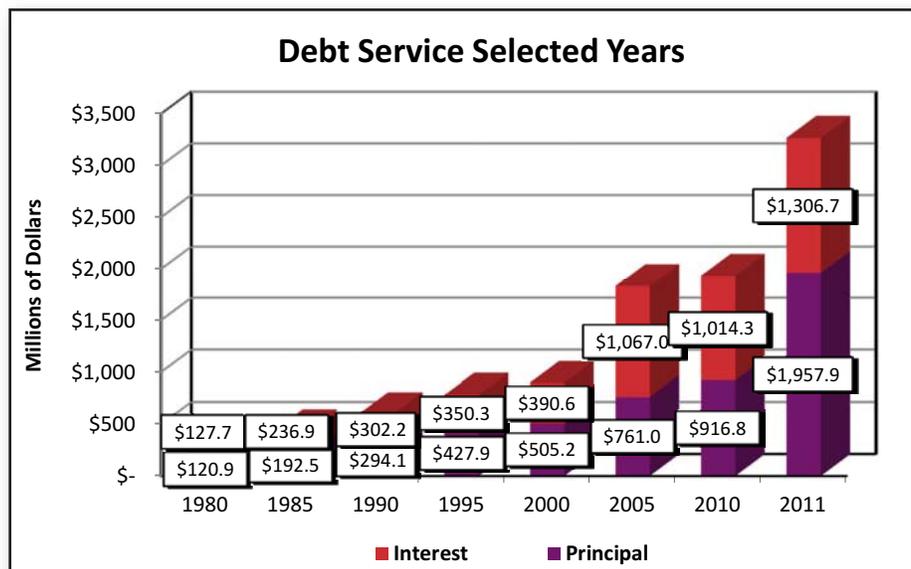
Debt Administration

At June 30, 2011, the state's general obligation bond ratings were as follows: Moody's Investors Services-"A1 with a Negative Outlook," Standard & Poor's Corporation (S & P)-"A+ with a Negative Outlook," and Fitch Ratings-"A with a Stable Outlook." These ratings outlook was moved down from A1 with a Stable Outlook by Moody's Investor Services, and moved up from A+ with Credit Watch Negative by Standard & Poor's Corporation (S & P) and from A with a Negative Outlook by Fitch at June 30, 2010. In addition, since June 30, 2011 the Moody's Investor Services rating was downgraded to A2 (Stable Outlook).

The State's special obligation – Build Illinois Bonds – ratings were A1 with a Negative Outlook from Moody's Investor Services, AAA with a Stable Outlook from Standard and Poor's, and AA+ with a Stable Outlook from Fitch Ratings as of June 30, 2011. Since June 30, 2011, the Moody's Investor Services rating for Build Illinois was downgraded to A2 with a Stable Outlook.

Debt Service

Debt service principal and interest costs of \$1.958 billion and \$1.307 billion, respectively, were paid in fiscal year 2011 for general and special obligation bonds. The dramatic increase in debt service since fiscal year 1980, which parallels the increase in general and special obligation bonds outstanding, and most recently the sale of bonds for pension contributions, is displayed in the chart below.



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 (\$42.6) billion at June 30, 2011. This represents a \$6.0 billion decrease compared to the (\$36.6) billion in the previous fiscal year, as restated. The state has \$14.7 billion of net assets invested in capital assets (net of related debt), \$5.8 billion of restricted net assets, and (\$63.1) 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 improvements.*

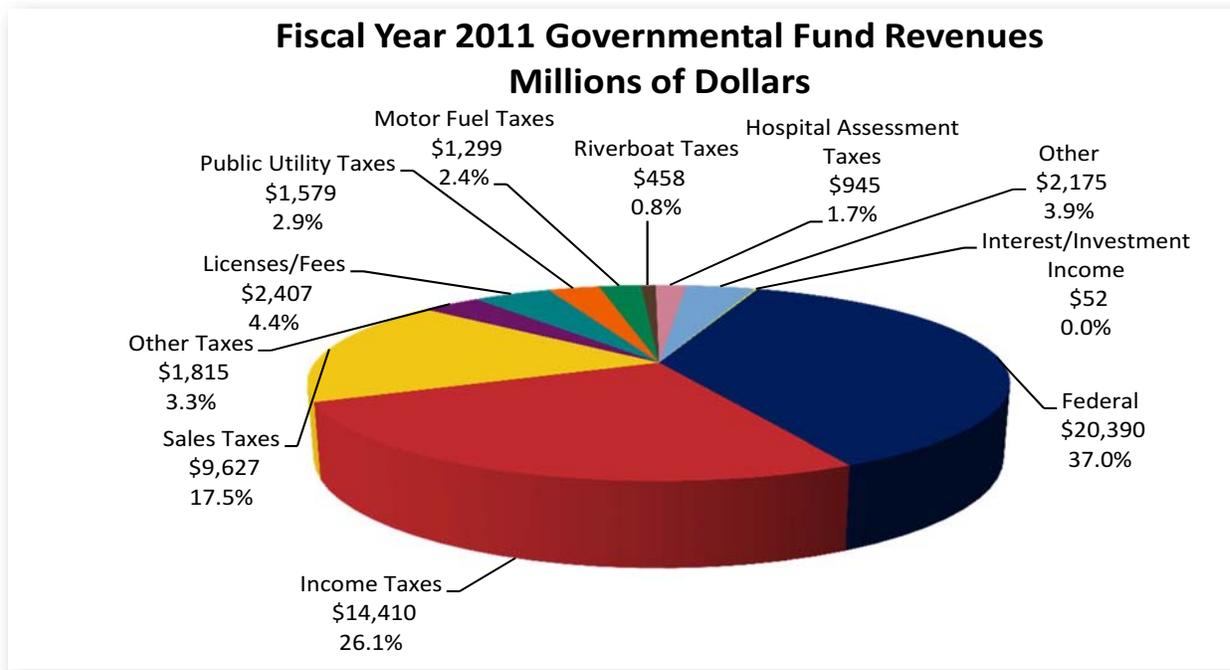
Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues from various sources for fiscal year 2011 for governmental funds are as follows.

Fiscal year 2011 governmental funds revenues totaled \$55.2 billion, an increase of \$4.6 billion (9.0%) from fiscal year 2010 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 2011, comprising nearly 54.7% of total governmental fund revenues, and increased \$4.9 billion (38.7%). Federal government revenues comprise 37.0% of total governmental fund revenues.

Income Taxes

Income tax revenues for fiscal year 2011 were \$14.4 billion which is a \$4.3 billion (42.2%) increase from fiscal year 2010 income tax revenues of \$10.1 billion. During fiscal year 2011, the legislature voted to raise the individual income tax rate from 3% to 5% and the corporate income tax rate from 4.8% to 7%, effective January 1, 2011, resulting in increased income tax revenues for fiscal year 2011.

GAAP BASIS



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

Governmental Activity Expenditures

Sales Taxes

Sales taxes of \$9.6 billion remained the second largest tax revenue source for fiscal year 2011. Sales taxes increased \$807 million (9.1%) from fiscal year 2010.

Federal Government Revenues

Federal government revenues decreased \$695 million (3.3%) from \$21.1 billion in fiscal year 2010 to \$20.4 billion in fiscal year 2011, 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 \$61.3 billion in fiscal year 2011 increased \$3.4 billion (5.9%) from 2010 and were nearly \$6.2 billion more than revenues on a GAAP basis.

Health and Social Services Expenditures

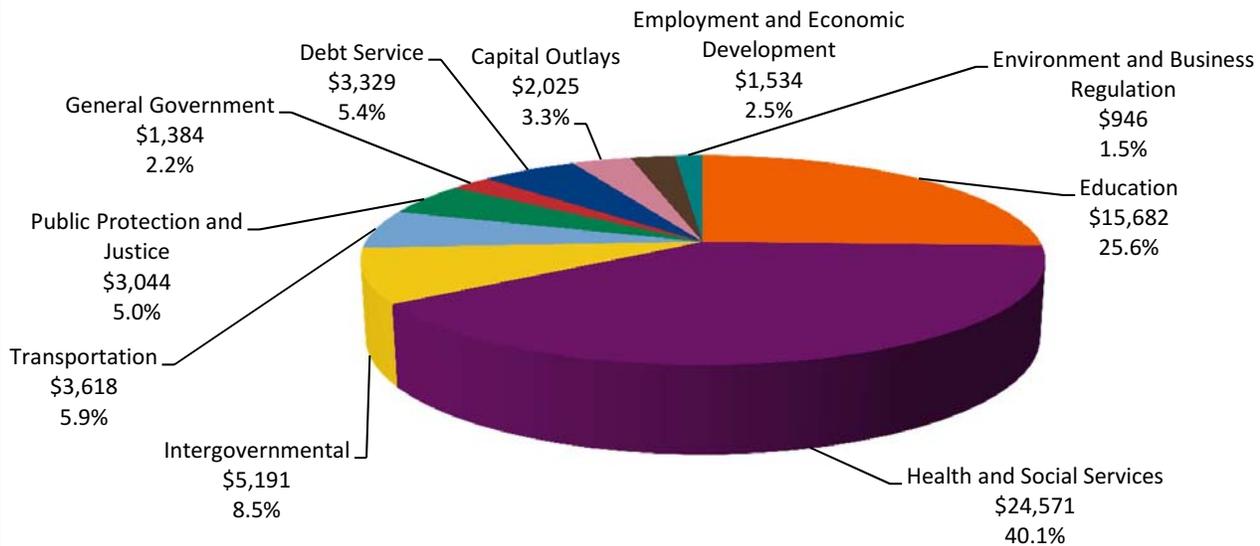
Health and social services expenditures of \$24.6 billion were the largest expenditure function for fiscal year 2011, increasing by \$441 million from fiscal year 2010, as restated. This expenditure function is 40.1% of total governmental spending. The Department of Healthcare and Family Services accounted 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 2011. Education expenditures of \$15.7 billion increased \$157 million (1.0%) from fiscal year 2010 on a GAAP basis and comprise 25.6% of total governmental expenditures.

GAAP BASIS

Fiscal Year 2011 Governmental Fund Expenditures
Millions of Dollars



Business-Type Activities

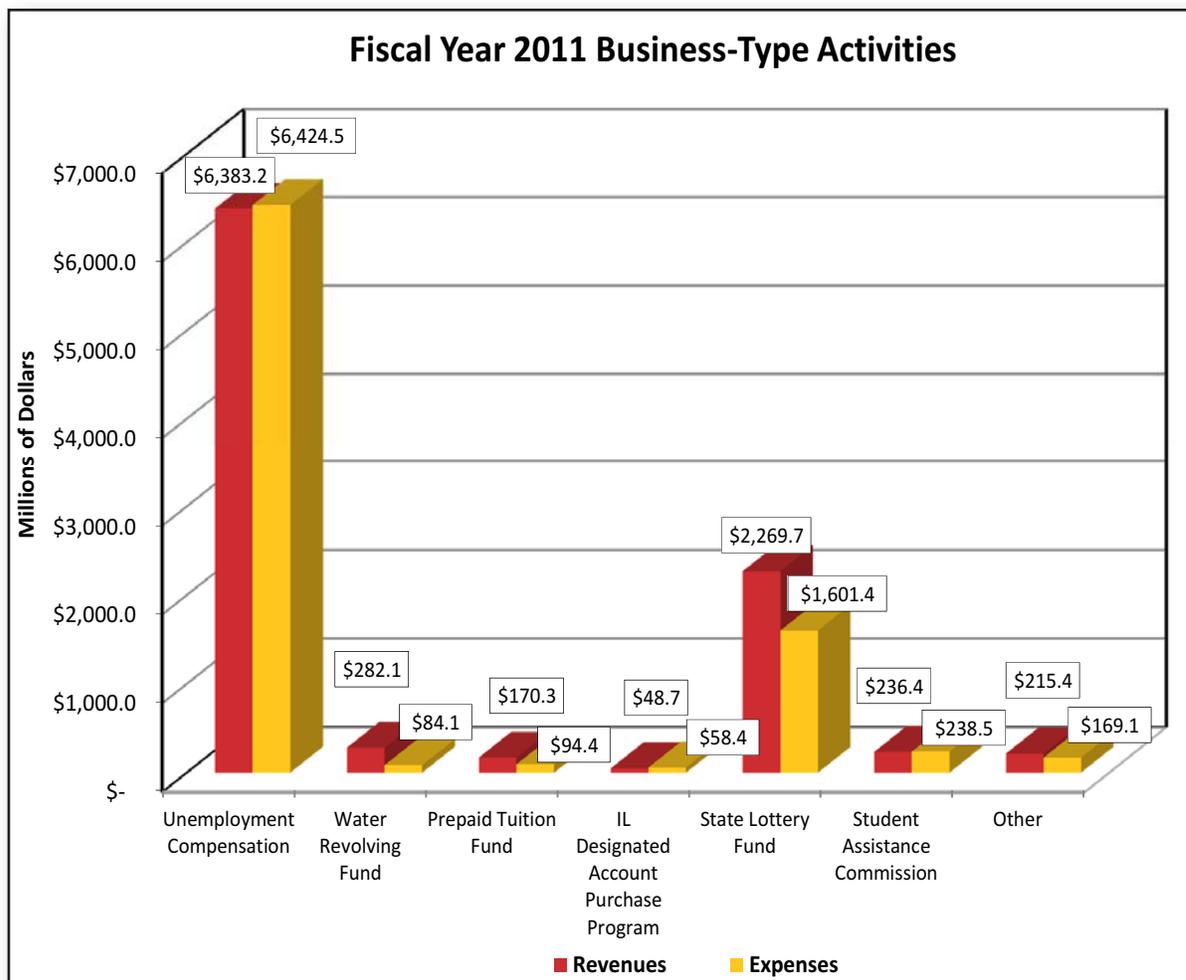
BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

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 make school aid payments. ■

GAAP BASIS



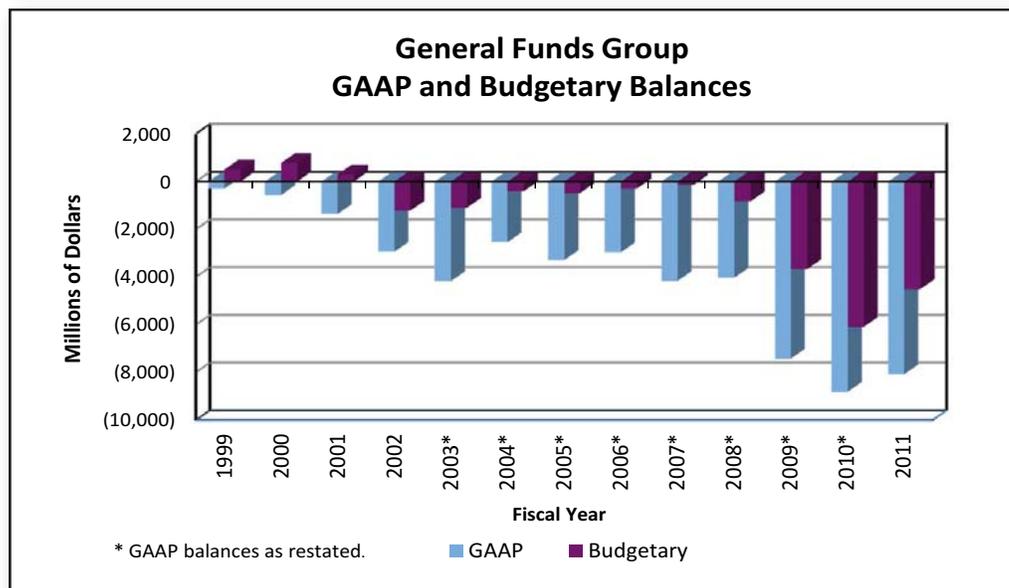
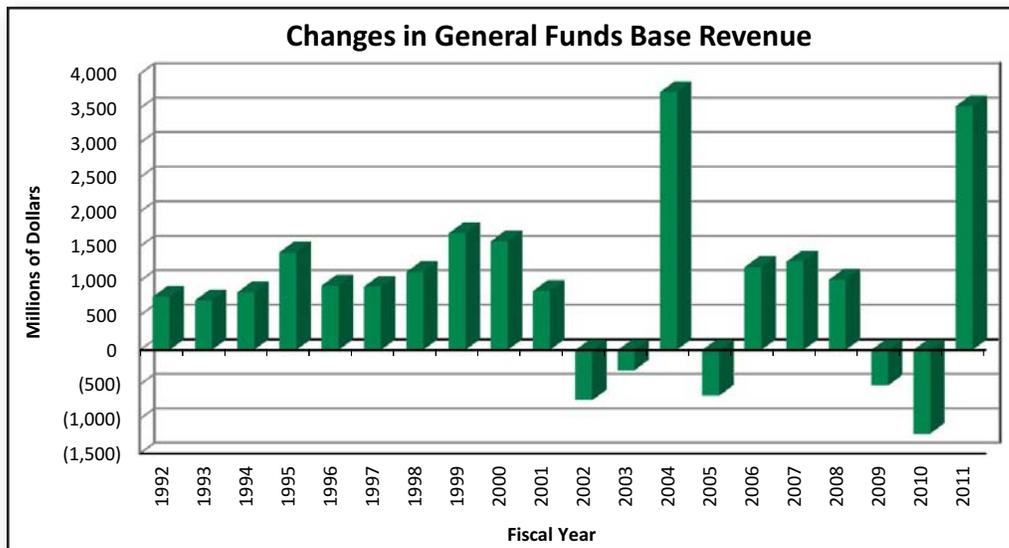
BUDGETARY BASIS

Fiscal Summary

For fiscal year 2011, General Funds base revenues increased \$3.533 billion. Revenues were impacted primarily by the temporary increase in individual and corporate income tax rates. Base expenditures increased \$912 million for the year. Spending growth was due to increases in transfers out, primarily from the first debt service transfers for the fiscal year 2010 pension bonds.

Fiscal year 2011 resulted in an improvement in the General Funds budgetary balance (measured on a cash basis). The balance increased from a \$6.094 billion deficit at the end of fiscal year 2010 to a \$4.507 billion deficit this year.

The state's General Funds GAAP balance increased from an \$8.818 billion deficit in fiscal year 2010, to an \$8.080 billion deficit in fiscal year 2011.



General Funds Base Revenue - Up 12.6% in Fiscal Year 2011

General Funds total revenues grew \$3.468 billion or 11.4% in fiscal year 2011, increasing to \$33.797 billion from \$30.329 billion in fiscal year 2010. Excluding the transfer of \$276 million from the Budget Stabilization Fund, short-term borrowing of \$1.3 billion, \$496 million in interfund borrowing and \$259 million in cash flow transfers, base revenues increased \$3.533 billion or 12.6%. While the economy is improving, three factors have significantly impacted the growth in base revenues. First was temporary increase in income tax rates with the individual tax rate going from 3.0% to 5.0% and the corporate tax rate increased from 4.8% to 7.0%.

Because of the tax rate increase, personal income taxes increased \$2.714 billion or 31.9%. Over the year, employment in Illinois increased by over 42,000 jobs and Illinois personal income was up 5.3%. While the stock market had increased for the year, it remained below the level of three years ago. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds increased \$491 million, or 36.1%, with amnesty accounting for \$215 million. Adding to the growth was the tax rate increase and the growth in before-tax corporate profits nationally of 5.7% in fiscal year 2011.

General Funds Revenue
(Millions of Dollars)

	Fiscal Year										Change From FY2010 to FY2011	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Amount	Percent
Personal Income Tax	\$ 7,471	\$ 7,341	\$ 7,272	\$ 7,979	\$ 8,635	\$ 9,408	\$ 10,320	\$ 9,223	\$ 8,511	\$ 11,225	\$ 2,714	31.9 %
Corporate Income Tax	803	738	936	1,172	1,428	1,750	1,860	1,710	1,360	1,851	491	36.1
Sales Taxes	6,051	6,059	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	525	8.3
Transfers In:												
Lottery Fund	555	540	570	614	670	622	657	625	625	632	7	1.1
Riverboat Gaming*	470	553	528	542	685	685	564	430	383	324	(59)	(15.4)
Other Transfers In	454	890	2,554	1,357	746	939	679	538	1,671	2,204	533	31.9
Total, Transfers In	1,479	1,983	3,652	2,513	2,101	2,246	1,900	1,593	2,679	3,160	481	18.0
Public Utility Taxes	1,104	1,006	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	58	5.3
Other Tax Sources	2,213	2,019	2,364	2,588	2,304	2,266	2,392	2,110	2,066	1,864	(202)	(9.8)
Base State Sources	\$ 19,121	\$ 19,146	\$ 21,634	\$ 21,903	\$ 22,634	\$ 23,937	\$ 24,844	\$ 22,577	\$ 22,013	\$ 26,080	\$ 4,067	18.5 %
Federal Sources	4,258	3,940	5,189	4,257	4,725	4,703	4,815	6,567	5,920	5,386	(534)	(9.0)
Total Base Revenue	\$ 23,379	\$ 23,086	\$ 26,823	\$ 26,160	\$ 27,359	\$ 28,640	\$ 29,659	\$ 29,144	\$ 27,933	\$ 31,466	\$ 3,533	12.6 %
Transfer from Budget												
Stabilization Fund	226	226	226	276	276	276	276	276	276	276	0	0.0
Interfund Borrowing	0	0	0	0	0	0	0	0	0	496	N/A	N/A
Cash Flow Transfer	0	0	0	982	0	456	1,503	300	870	259	(611)	(70.2)
Short-Term Borrowing	0	1,675	0	765	1,000	900	2,400	2,400	1,250	1,300	50	4.0
Total Revenue	\$ 23,605	\$ 24,987	\$ 27,049	\$ 28,183	\$ 28,635	\$ 30,272	\$ 33,838	\$ 32,120	\$ 30,329	\$ 33,797	\$ 3,468	11.4 %

* Excludes riverboat gaming receipts.

Second was the sale of tobacco securitization bonds which totaled \$1.25 billion. Finally, there was the tax amnesty program which generated almost \$434 million in revenues to the General Funds. While these state revenues increased, 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 2011. State sources increased \$4.067 billion or 18.5% as cash receipts grew \$3.586 billion and transfers in from other funds increased by \$481 million. Federal sources decreased \$534 million or 9.0%.

Retail sales for the year reflected the improving economy as the processing of sales tax vehicle transaction forms (auto sales) increased approximately 6.5%. As a result, revenues from the state sales tax totaled \$6.833 billion, an increase of \$525 million or 8.3% with amnesty representing \$164 million of the increase. Nationally, retail sales for the fiscal year were up 7.3%.

Transfers in from other funds increased \$481 million or 18.0% for the year totaling \$3.160 billion. Riverboat gambling transfers decreased \$59 million while Lottery transfers into the Common School Fund were up \$7 million. All other

General Funds Base Revenue *concluded*

transfers were up \$533 million due to the \$1.25 billion from tobacco bond proceeds and increased transfers from the Capital Projects Fund. These increased transfers were partially offset by a decrease in transfers from the Pension Contribution Fund and the legislated transfers in fiscal year 2010.

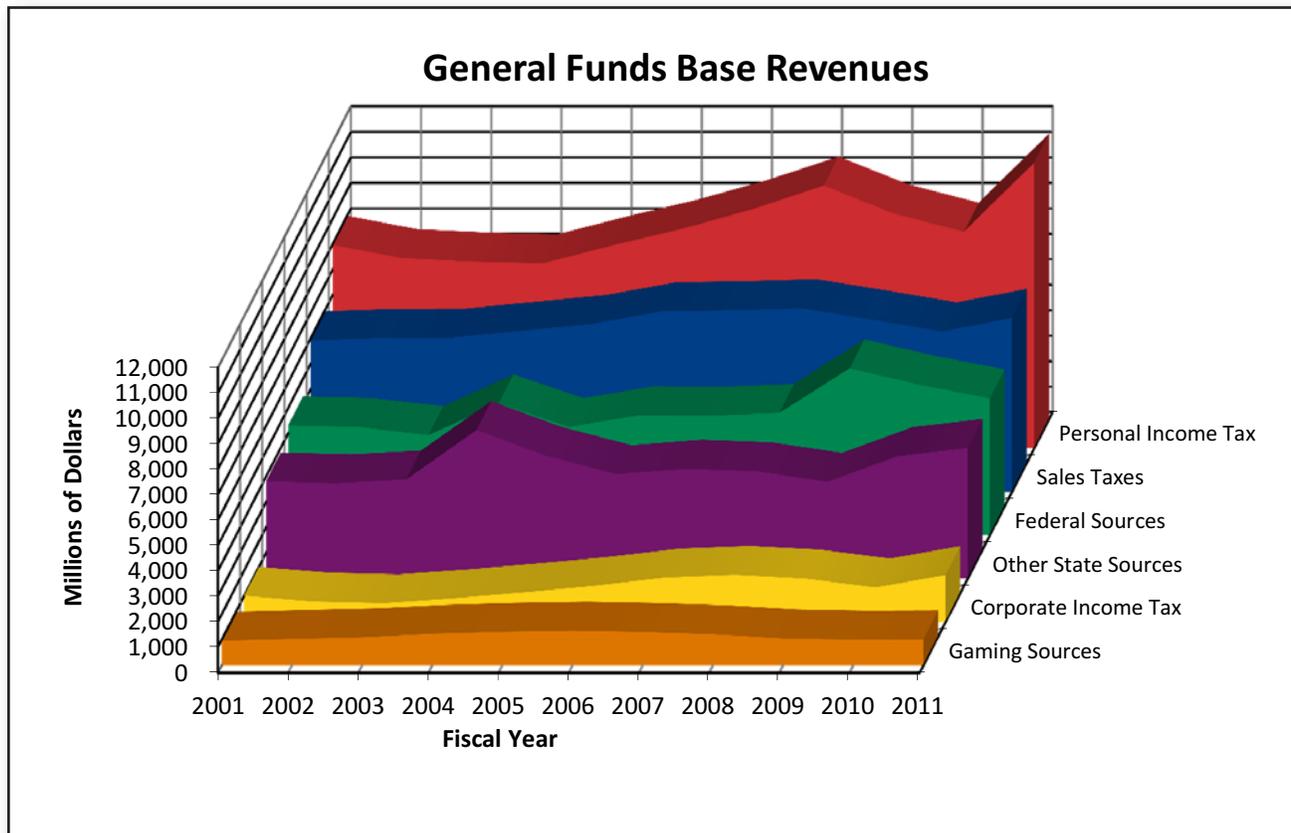
For fiscal year 2011, public utility taxes increased 5.3% with telecommunications tax revenues \$37 million higher (\$18 million from amnesty), while revenues from the natural gas tax increased \$1 million and electric tax receipts were up \$20 million. Gas and electric are consumption-based taxes and change with increases or decreases in usage.

Receipts from other tax sources were down \$202 million or 9.8% for the year. Inheritance tax receipts decreased \$121 million and receipts from the Attorney General and Build Illinois Escrow Account into the General Funds were down \$34 million and \$21 million respectively.

Federal sources decreased \$534 million or 9.0% in fiscal year 2011 to a total of \$5.386 billion. Revenues tied to the federal stimulus legislation decreased \$1.026 billion with most of the decline in federal stimulus funding for education.

For fiscal year 2011, income and sales taxes brought in 63.3% of total General Funds base revenues, while federal sources and other sources accounted for 17.1% and 19.6%, respectively. While the economy remains a major factor in determining General Funds revenue performance, the tax rate increase had a significant impact on the percentages.

BUDGETARY BASIS



General Funds Base Spending - Up 3.1% in Fiscal Year 2011

General Funds base expenditures for fiscal year 2011, which excludes borrowing repayments, totaled \$30.517 billion, an increase of \$912 million or 3.1% from fiscal year 2010 spending. Of this total, the spending by state agencies decreased by \$854 million and regular transfers out increased by \$1.766 billion. Including the fiscal year 2011 increase, base spending from the General Funds has increased by an average of \$624.2 million over the last nine fiscal years.

Looking at all cash expenditures, Illinois General Funds short-term borrowing repayment was down \$954 million and cash flow transfers were down \$610 million. In addition, there was the \$276 million repayment to the Budget Stabilization Fund and \$9 million in interfund borrowing repayment.

For fiscal year 2011, 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 \$21.466 billion or 84.4% of all agency spending.

The Department of Healthcare and Family Services (DHFS) had the highest state agency spending in fiscal year 2011

and the largest for six out of the last ten years. DHFS spending of \$7.309 billion in fiscal year 2011 is \$70 million, or 1.0%, more than fiscal year 2010. The increase in DHFS spending was due a surge in spending at the end of the year to take advantage of the increased reimbursement under the federal stimulus program (which resulted in a decrease in appropriations to the agency in fiscal year 2012). In addition, \$1.4 billion in fiscal year 2011 DHFS spending was diverted from the General Funds to the Healthcare Provider Relief Fund.

The State Board of Education was the agency with the second highest spending in fiscal year 2011 with \$6.912 billion or 27.2% of total state agency spending. The State Board of Education's spending decreased slightly by \$361 million or 5.0% from fiscal year 2010. General state aid to school districts accounts for the largest portion (66.6% or \$4.6 billion) of State Board spending.

In fiscal year 2011, the Department of Human Services spending decreased to \$3.894 billion from \$3.997 billion, a decrease of \$103 million or 2.6%. Higher Education agencies spending decreased from \$2.230 billion in fiscal year 2010 to

Agency	Fiscal Year										Change from FY 2010 to FY 2011	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Amount	Percent
Healthcare and Family Services (Public Aid)	\$ 5,153	\$ 5,099	\$ 5,690	\$ 4,990	\$ 7,343	\$ 7,725	\$ 8,089	\$ 9,556	\$ 7,239	\$ 7,309	\$ 70	1.0 %
State Board of Education	5,292	5,133	5,471	5,751	6,045	6,472	6,995	7,357	7,273	6,912	(361)	(5.0)
Human Services	3,668	3,502	3,597	3,747	3,817	3,885	4,086	4,144	3,997	3,894	(103)	(2.6)
Higher Education	2,637	2,471	2,308	2,210	2,190	2,269	2,195	2,398	2,230	2,146	(84)	(3.8)
Corrections	1,243	1,162	1,183	1,198	1,170	1,119	1,208	1,308	1,156	1,205	49	4.2
Teachers Retirement	865	923	805	942	610	814	1,110	1,527	914	256	(658)	(72.0)
Children and Family Services	904	824	795	754	803	771	887	906	847	840	(7)	(0.8)
Aging	239	242	256	331	352	421	458	537	653	646	(7)	(1.1)
Judicial Agencies	335	328	335	325	305	322	351	376	310	323	13	4.2
State Police	231	183	177	175	173	193	210	215	265	272	7	2.6
Revenue	244	145	159	125	127	148	156	155	128	134	6	4.7
Central Management Services	756	840	1,045	983	95	105	82	74	88	96	8	9.1
Other Agencies	1,178	1,057	857	1,011	1,083	1,267	1,344	1,235	1,218	1,436	218	17.9
Prior Year Adjustments	(5)	(15)	(48)	25	(10)	(11)	(14)	(14)	(17)	(22)	(5)	N/A
Total, General Funds Warrants Issued	\$ 22,740	\$ 21,894	\$ 22,630	\$ 22,567	\$ 24,103	\$ 25,500	\$ 27,157	\$ 29,774	\$ 26,301	\$ 25,447	\$ (854)	(3.2) %
Regular Transfers Out	2,159	2,031	2,519	3,657	3,059	2,973	3,201	3,185	3,304	5,070	1,766	53.5
Base General Funds Expenditures	\$ 24,899	\$ 23,925	\$ 25,149	\$ 26,224	\$ 27,162	\$ 28,473	\$ 30,358	\$ 32,959	\$ 29,605	\$ 30,517	\$ 912	3.1 %
Short-Term Borrowing Repayment	0	710	990	768	1,014	11	1,503	1,424	2,276	1,322	(954)	(41.9)
Transfer to Budget Stabilization Fund	226	226	226	276	276	276	276	276	0	276	276	N/A
Repayment of Interfund Borrowing	0	0	0	0	0	0	0	0	0	9	9	N/A
Cash Flow Transfer	0	0	0	979	0	1,356	2,400	300	870	260	(610)	(70.1)
Total, General Funds Expenditures	\$ 25,125	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452	\$ 30,116	\$ 34,537	\$ 34,959	\$ 32,751	\$ 32,384	\$ (367)	(1.1) %

General Funds Base Spending *concluded*

\$2.146 billion, a decrease of 3.8% in fiscal year 2011. Fiscal year 2011 Corrections spending of \$1.205 billion was an increase of \$49 million or 4.2% from fiscal year 2010.

The Teachers Retirement System had the largest decline in spending, as expenditures decreased \$658 million or 72.0%. In March 2011, Illinois issued \$3.7 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.

Transfers Out increased \$1.766 billion or 53.5% due to the first year of payment for the fiscal year 2010 pension bonds and transfers to the Healthcare Provider Relief Fund.

Fiscal Climate • Fiscal Year 2011

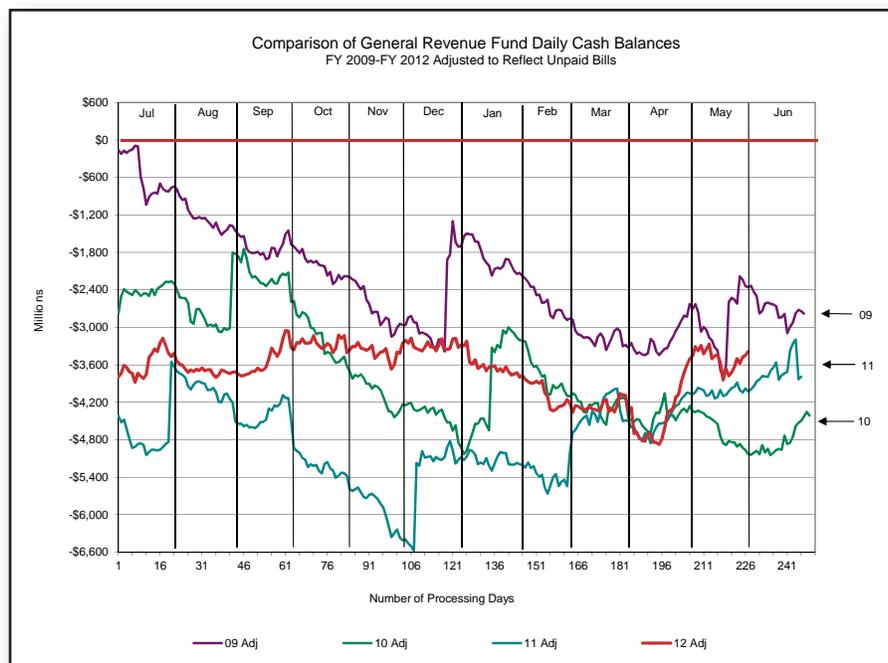
With lower balances (cash and budgetary) and a backlog of unpaid bills, fiscal year 2011 began with the weakest financial position in modern history. On June 30th, fiscal year 2010 ended with unpaid bills totaling \$4.492 billion on hand at the Comptroller's office and the state was unable to transfer the \$276 million back to the Budget Stabilization Fund. With \$1.732 billion in additional fiscal year 2010 expenditures processed in July and August, fiscal year 2010 lapse period spending totaled \$6.224 billion. Lapse period was extended to December 31, 2010 to allow the state additional time to close out fiscal year 2010. This record high lapse period spending number meant that over 21.9% of fiscal year 2011 state source revenues were used to pay fiscal year 2010 liabilities. With the economy still weak and an expected decline in federal stimulus revenues, it was apparent that the financial position of the state would continue to deteriorate.

With economic revenues still weak, the state utilized \$1.3 billion in short-term borrowing in July 2010 to pay lapse period liabilities. By the end of the first quarter of the fiscal year, with base revenue basically flat, outstanding payables totaled \$5.510 billion. Of this amount, a little over \$2.0 billion were payables from fiscal year 2010 liabilities and represented an increase of \$2.597 billion in payables over the prior year. Several announced fiscal year 2011 budget relief items, including a tobacco securitization bond issue and a tax amnesty program, had not materialized. Also, \$1 billion was budgeted from a new interfund borrowing authority of which only \$263 million was transferred in the first quarter.

Halfway through the fiscal year, the state's cash position had worsened even with the implementation of budget relief measures. Economy-driven revenues began to improve but the increase in base revenue was driven by the sale of \$1.25 billion in tobacco securitization bonds and \$392 million from the tax amnesty program. Additionally, \$354 million in interfund borrowing was utilized. However, at the end of December 2010, the backlog of unpaid bills reached a staggering \$6.382 billion, a record level at the end of the first half of the fiscal year. Included in this total backlog was \$1.805 billion in unpaid pension obligations as a proposed pension bond authorization to cover the fiscal year 2011 pension contribution had been considered but not yet enacted.

Effective January 1, 2011, the state increased the individual income tax rate from 3.0% to 5.0% and the corporate income tax rate from 4.8% to 7.0% temporarily in an effort to address the deteriorating fiscal position.

During the third quarter, the state issued \$3.7 billion in bonds in March (to be repaid over the next eight fiscal years) for the state's payment to the five pension systems. This bond sale, by reversing the vouchers submitted for the year's retirement payments, greatly reduced the backlog and also repaid the General Funds \$224 million for retirement payments already made. Base revenues were up at the end the quarter due to the tax increase and other budget relief measures but were partially offset by the decline in federal



BUDGETARY BASIS

Fiscal Climate *continued*

revenues. However, by the end of March 2011 the backlog of unpaid bills was \$4.515 billion which was comparable to the \$4.496 billion backlog the year before.

In the fourth quarter of the fiscal year 2011, income tax collections increased due to the tax rate increase and sales tax revenues continued to improve. Federal revenues increased in the fourth quarter due to a concerted effort to maximize Medicaid federal stimulus revenues before the expiration of the enhanced Medicaid match rate at the end of June 2011. Revenue growth allowed for the increase in Medicaid spending, including the transfer to the Healthcare Provider Relief Fund, as well transfers to repay short-term borrowing which totaled \$1.162 billion in the fourth quarter. For the fiscal year, transfers out increased due to the debt service on the 2010 pension bonds. Fiscal year 2011 still ended with unpaid bills totaling \$3.798 billion, although down from \$4.492 billion at the prior year.

During the fiscal year 2011 lapse period, additional vouchers totaling \$1.732 billion were presented. Therefore, the General Funds ended the year with a negative budgetary balance of \$4.507 billion, an improvement of \$1.587 billion over the negative budgetary balance of \$6.094 billion in fiscal year

2010. However, some of this improvement was due to the growth in "Section 25 liabilities." Section 25 of the State Finance Act allows for the deferral of certain payments (usually medical payments) to the next fiscal year. These deferred payments increased from \$1.52 billion in fiscal year 2010 to \$1.84 billion this year. While Medicaid deferrals decreased again due to the requirements from the federal stimulus program, deferred payments for state employee group insurance grew by \$525 million.

A Look at Fiscal Year 2012

Even with the state's fiscal position improving, fiscal year 2012 began under tenuous circumstances. It appeared that state appropriations for medical services were insufficient to address the increase in Section 25 liabilities, the carried over medical bills. Other budgetary challenges included the end of federal stimulus funding for Medicaid bills and the decision to fund fiscal year 2012 pension payments from current revenues. As a result, it appeared that the state's ability to pay its bills in a timely manner would not improve. With fiscal year 2011 General Funds lapse period obligations of \$4.977 billion, over 16% of state sources of revenue in fiscal year 2012 will be needed to pay fiscal year 2011 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
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 *	(8,818)	(1,396)	(6,094)	(2,421)	(6,142)	(2,102)
2011	(8,080)	738	(4,507)	1,587	(4,966)	1,176

* GAAP balance as restated.

Fiscal Climate *concluded*

The state ended the first quarter in September with \$3.817 billion in unpaid bills compared to \$5.510 billion last year. Several budget relief items, including the interfund borrowing, tobacco securitization bonds, and tax amnesty are not available in fiscal year 2012. However, economic revenues improved with income taxes and sales tax revenues increasing. Income tax revenues increased significantly in the first half of the fiscal year due to the increase in income tax rates. With a decline in Medicaid lapse period spending and the end of federal requirements on Medicaid expenditures, federal reimbursements decreased in the first quarter.

By the end of December 2011, the backlog of unpaid bills totaled \$4.273 billion but the state was able to pay all fiscal year 2011 vouchers by the end of the quarter. This was a slight improvement from December 2010 (if the pension liabilities in 2010 were backed out of those numbers). Also, it was the first time since fiscal year 2007 that there had not

been a short-term borrowing to assist with lapse period obligations. Base revenues were up only \$211 million at the end of the quarter. The growth in economic revenues was offset by the loss of budget relief items utilized in the previous year and the continued decline in federal revenues and Medicaid spending.

At the end of March 2011, the growth in income tax revenue from the tax rate increase had ended. Spending pressure continued for the General Funds, due in part to current funding of retirement contributions instead of issuing pension bonds as in previous years. At the end of the third quarter, the backlog of unpaid bills in the Comptroller's Office was \$5.577 billion. Projections for the end of fiscal year estimate that the backlog of the bills will be similar to the previous fiscal year, but will be impacted by spending decisions through the end of the year. Cash flow problems will persist for the foreseeable future. ■

