



STATE OF ILLINOIS
COMPTROLLER
JUDY BAAR TOPINKA

EXECUTIVE SUMMARY

FISCAL YEAR ENDED JUNE 30, 2013

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COMPTROLLER
JUDY BAAR TOPINKA



February 2014

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 2013 report notes that Illinois' cash position improved as the budgetary deficit decreased by \$996 million from a deficit of \$4.984 billion to a deficit of \$3.988 billion. The General Fund GAAP balance also improved. The state ended fiscal year 2013 with a negative General Fund balance of \$7.334 billion, indicating that the state's GAAP deficit decreased by \$1.744 billion compared to the prior year. Section 25 liabilities – essentially fiscal year 2013 medical bills paid for with fiscal year 2014 appropriations – fell this year, totaling \$2.353 billion as of June 30, 2013.

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



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

State of Illinois

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Jeffrey R. Egan

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Skyline
Chicago, Illinois



Waterfall, Starved Rock
Ottawa, Illinois

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 2.7 million of the state's residents live in Chicago, the third largest city in the country. Seven other municipalities including Aurora, Elgin, Rockford, Naperville, Joliet, Peoria, and the state's capital of Springfield have populations in excess of 100,000 with another 21 municipalities' populations estimated to be in excess of 50,000.

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

Responsibility for most of the day-to-day operations of state government and its programs resides in the executive branch, with the Governor overseeing the largest portion. Under the purview of the Governor there were twenty-two major departments in fiscal year 2013 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 62,836 persons at the end of fiscal year 2013, 1,492 less than one year earlier. The Departments of Corrections (11,888), Human Services (11,660), Transportation (5,779), and the Secretary of State (3,915) accounted for just over half (52.9%) of all direct government employees.

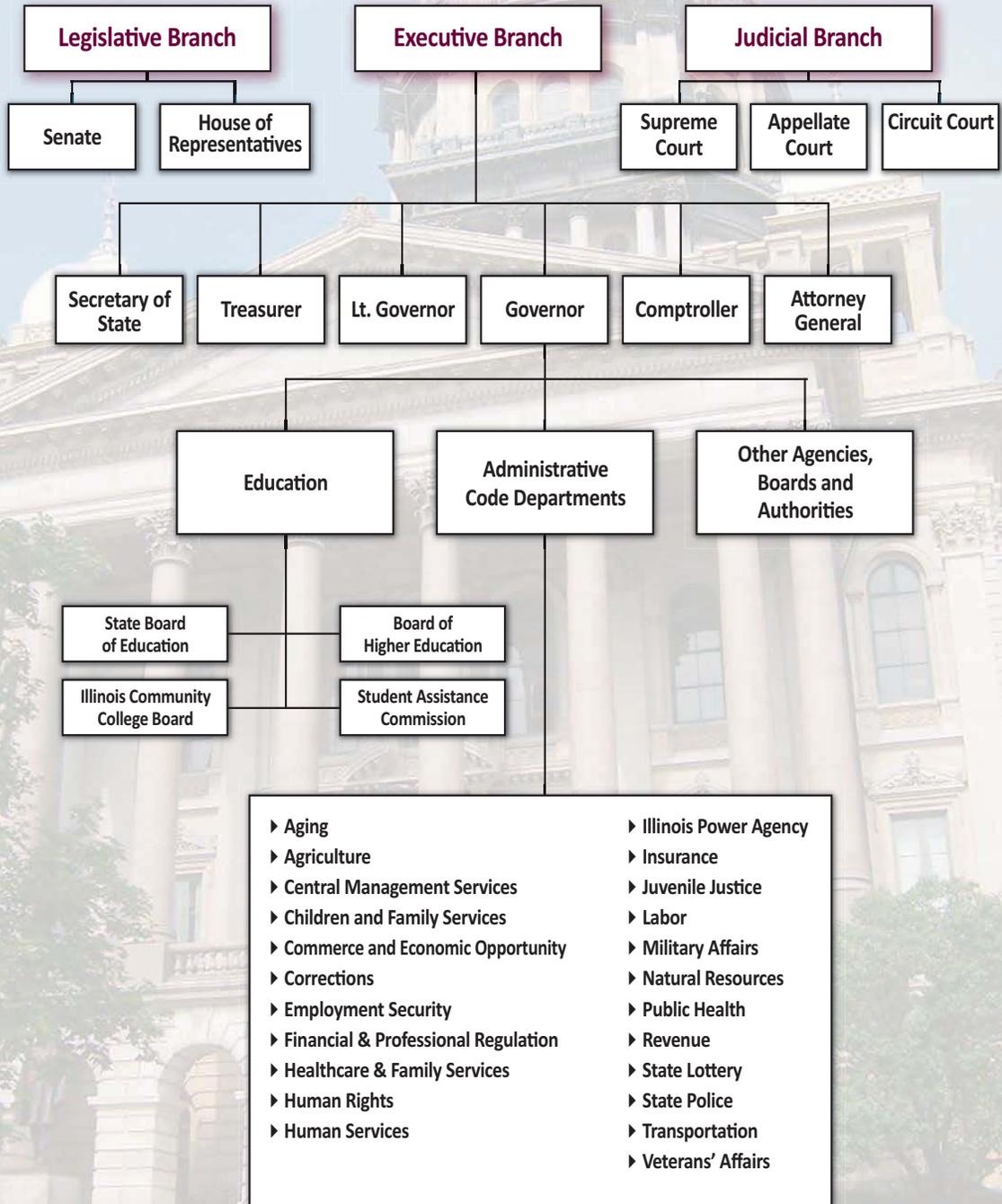
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 866 school districts and 3,881 schools. In fiscal year 2013, nearly 2.1 million public school children were instructed by over 128,000 full-time, certified teachers throughout Illinois.

The 16-member Board of Higher Education plans and coordinates higher education policy for all sectors of Illinois Higher Education. Administration of Illinois' public universities and community colleges is conducted by ten boards including: the Boards of Trustees of the University of Illinois, Southern Illinois University, Chicago State University, Eastern Illinois University, Governors State University, Illinois State University, Northeastern Illinois University, Northern Illinois University, Western Illinois University, and the Community College Board. During the 2013 fiscal year, over 557,000 students were enrolled in Illinois' public colleges and universities, and about 281,000 were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. At the end of fiscal year 2013, the count of enrolled individuals for which the Department of Healthcare and Family Services provided comprehensive means-tested medical coverage was approximately 2.8 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 2013 were \$63.0 billion or approximately \$4,880 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$62.5 billion for the governmental funds with income taxes (\$21.1 billion), federal revenues (\$19.6 billion), and sales taxes (\$10.2 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$25.4 billion), and Education (\$16.2 billion). ■

ELECTORATE



The recovery from the recession continued in Illinois in fiscal year 2013, albeit at a modest pace. The employment measures of Illinois economic activity showed signs of improvement during the fiscal year, as did Illinoisans' personal income. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.772 million workers in fiscal year 2013, an increase of 62,000 jobs or 1.1% above 2012 employment, but still 273,000 jobs or 4.5% below peak employment of 6.045 million jobs in fiscal 2001. A second Illinois employment estimate, obtained through household surveys, also showed an increase in Illinois employment. According to these surveys, on average 5.997 million Illinoisans were employed in fiscal year 2013, up 27,000, or 0.5%, from the prior year employment level.

The average Illinois unemployment rate decreased from 9.4% in fiscal year 2012 to 9.1% in fiscal year 2013. The decreased unemployment rate was caused by the increase in employment levels and the decline in the average number of unemployed from 619 thousand in fiscal year 2012 to 599 thousand in fiscal year 2013. The average Illinois unemployment rate in fiscal year 2013 was still nearly double the 4.6% average rate for fiscal year 2007.

The manufacturing sector grew slightly in fiscal year 2013. Average manufacturing employment of 582,800 jobs was up 4,300 jobs from the prior year. Manufacturing employment was still down 323,800 jobs or 35.7% from the most recent peak manufacturing employment of 906,600 jobs during fiscal year 1998.

A fairly comprehensive measure of Illinois' economic performance is the change in state personal income adjusted for inflation. This value increased 1.5% in fiscal year 2013 as nominal personal income rose 3.1% following modest employment growth and the consumer price index was up 1.7%. State personal income adjusted for inflation had increased 1.1% in fiscal year 2012.

Fiscal Year 2014 and Beyond

The first half of fiscal year 2014 has seen a slow continuation of economic growth in Illinois. The average Illinois unemployment rate was 8.7% for the first half year of the fiscal year, although employment as measured through the household survey was down 64,000, or -1.1%, from its prior year level. The payroll employment data continued to show improvement with employment edging up

58,000 or 1.0% from its prior year level. Economic growth is expected to continue at a moderate pace in the remainder of fiscal year 2014.

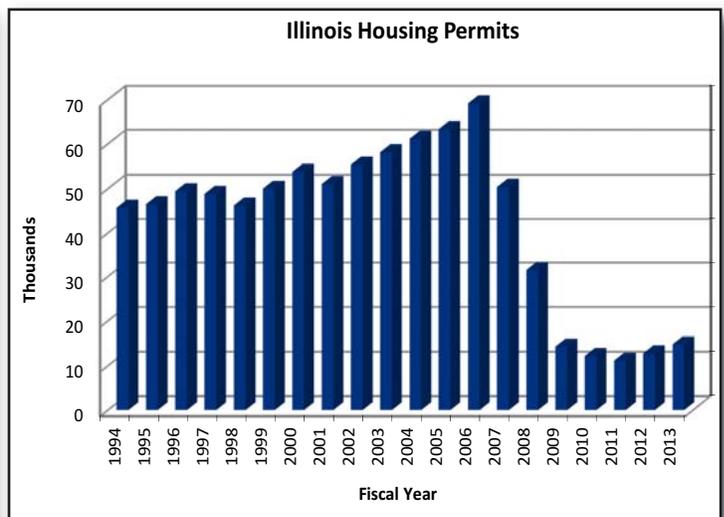
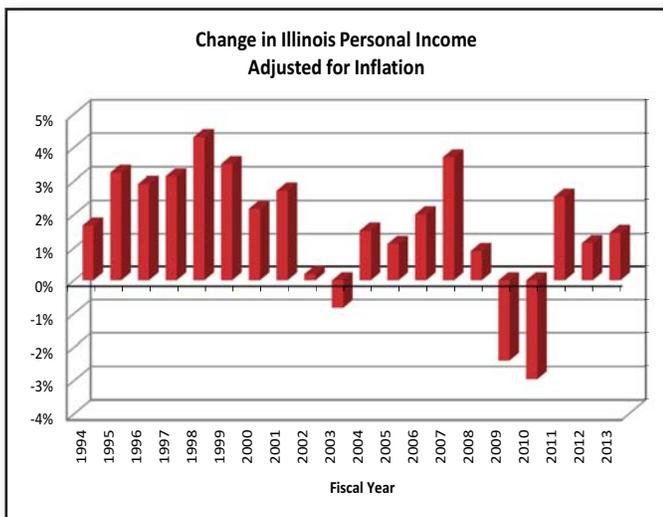
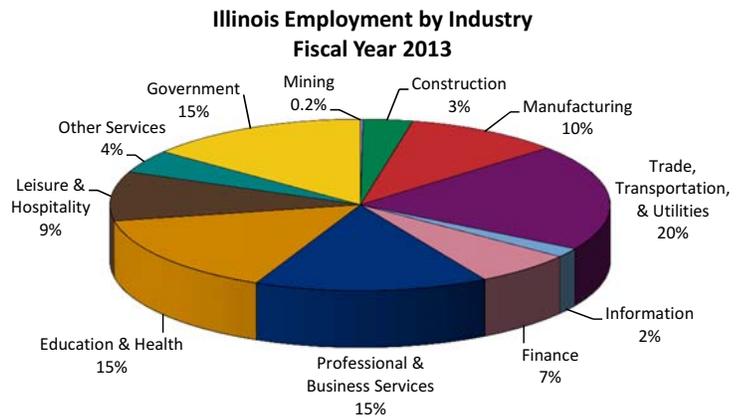
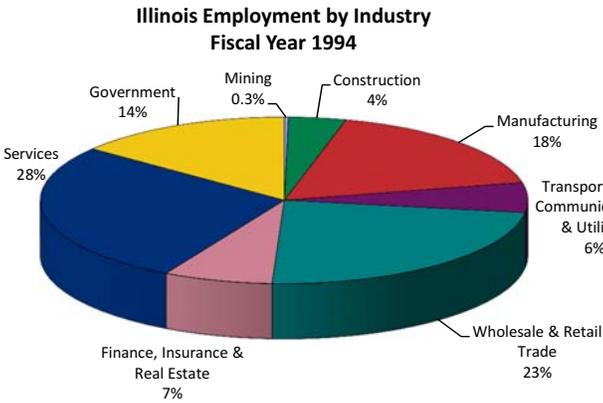
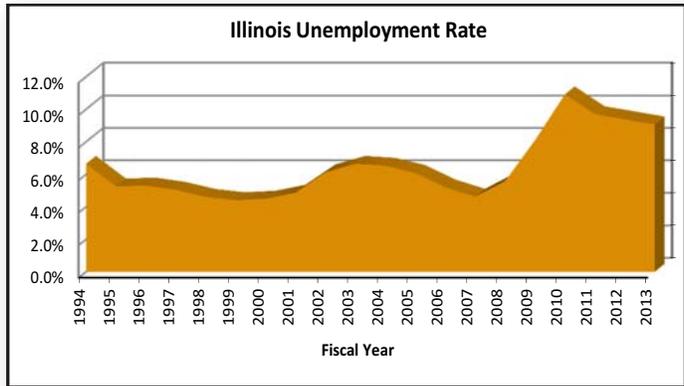
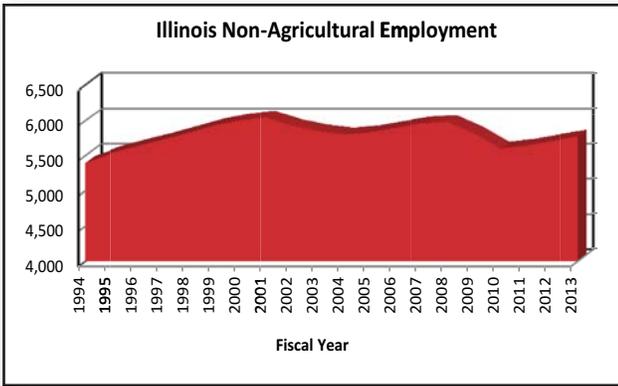
In working to restore its economy to economic health, Illinois can take advantage of its many strengths. Home to 32 of the Fortune 500 companies in 2013, Illinois is the business and financial center of the Midwest. Illinois is tightly integrated into the international economy. With exports of \$68 billion in calendar year 2012, Illinois ranked 5th highest among the states including a Top 5 ranking for agricultural exports. To thrive in such a competitive climate, Illinois is maintaining superior transportation and communication infrastructures, providing educational and training opportunities to support a skilled and adaptable labor force, and fostering businesses that create and transfer new technologies into the workplace.

Chicago is the transportation crossroads of the United States. It is home to O'Hare Airport which was again ranked as one of the World's Busiest Airports in 2012 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.

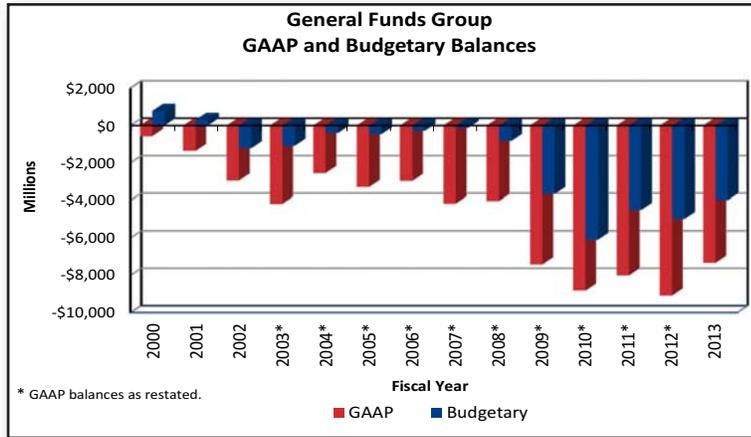
Illinois' educational resources include private universities such as the University of Chicago and Northwestern University as well as the twelve-campus public system. In fiscal year 2013, Illinois private institutions served 281,000 students with another 198,000 served by the public universities. A statewide system of community colleges (359,000 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)	6/30/12	6/30/13	Change
Gross Balance	\$3,395	\$3,799	\$404
Uncollectibles	\$1,047	\$1,170	\$123

Fiscal Activity General Funds

(in millions)	FY 2012	FY 2013	Change
Beginning Balance	\$ 469	\$ 40	\$ (429)
Revenues	\$ 34,072	\$ 36,603	\$ 2,531
Expenditures	\$ 34,501	\$ 36,489	\$ 1,988
Ending Balance	\$ 40	\$ 154	\$ 114
Lapse Period Transactions	\$ 5,024	\$ 4,142	\$ (882)
Budgetary Balance	\$ (4,984)	\$ (3,988)	\$ 996

Major Unfunded and Long Term Liabilities

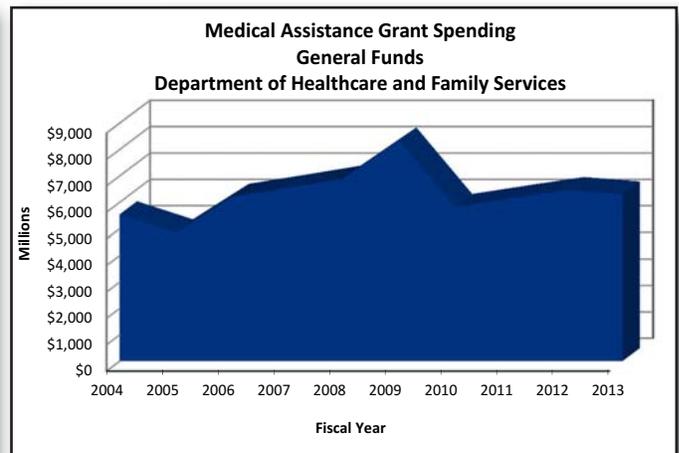
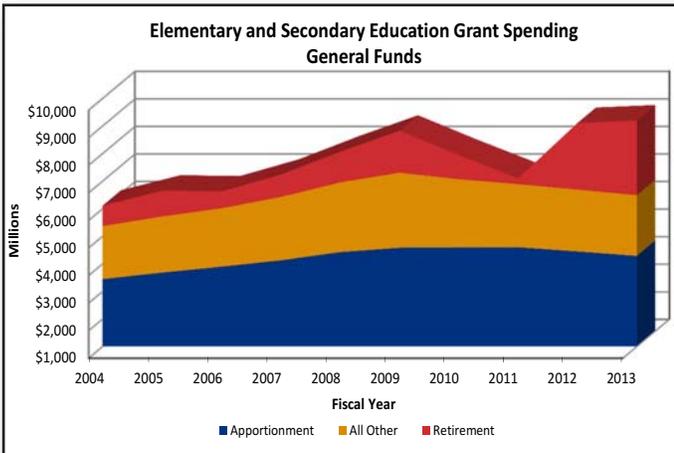
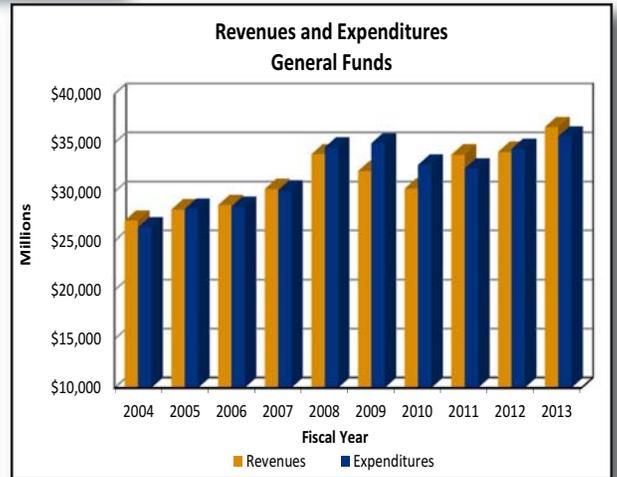
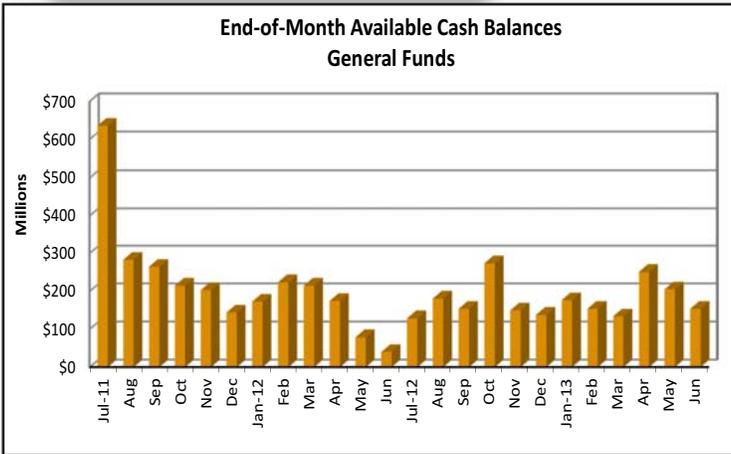
(in millions)	FY 2012	FY 2013
Net Pension Obligation	\$ 26,184	\$ 27,904
General Obligation Bonds	\$ 27,793	\$ 27,055
Build Illinois and Civic Center Bonds	\$ 2,852	\$ 2,896
Illinois Railsplitter Authority Bonds	\$ 1,444	\$ 1,381
Net Other Post-Employment Benefit Obligation	\$ 7,300	\$ 9,053

G.O. Bond Rating

Moody's	A3
S&P	A-
Fitch	A-
(as of February 2014)	

Section 25 Liabilities

(in millions)	6/30/12	6/30/13	Change
Liabilities	\$3,628	\$2,353	(\$1,275)



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, 2013, were approximately \$51.3 billion, an increase of \$3.8 billion from June 30, 2012. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised approximately \$21.1 billion (41.1%) of the state's total assets.

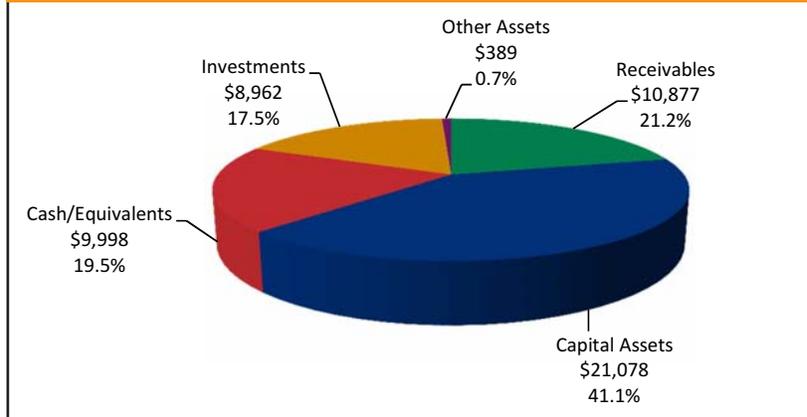
LIABILITIES

Total liabilities of the state were approximately \$96.1 billion at June 30, 2013, an increase of \$3.8 billion from June 30, 2012. The state's largest liability balances are the net pension obligation of \$27.9 billion (29.0%) and the general and special obligation debt liability of \$30.0 billion (31.2%).

Net Pension Obligation

The net pension obligation at June 30, 2013, for the state's five pension trust funds was \$27.9 bil-

Total Assets (Primary Government) June 30, 2013 Dollar Amounts in Millions

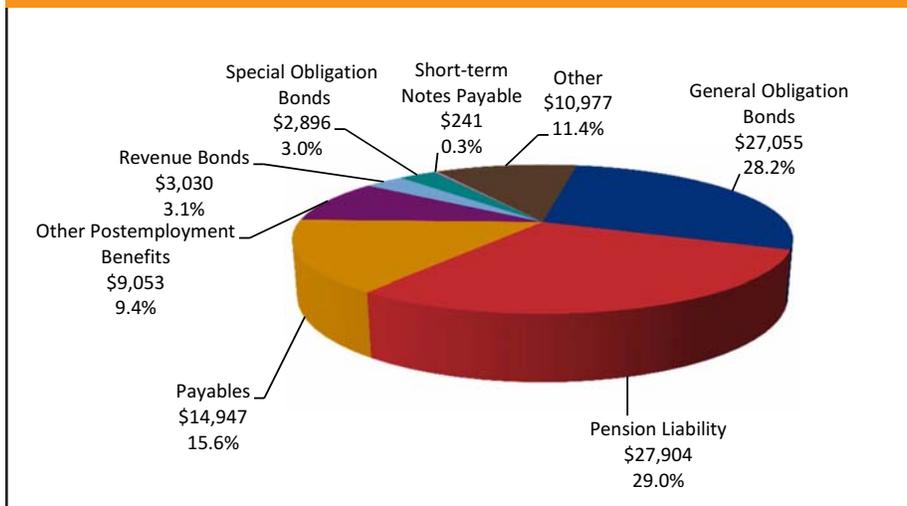


lion, an increase of approximately \$1.7 billion from June 30, 2012. The net pension obligation is the difference between the annual actuarially required contributions and the actual contributions made to the state's retirement systems. The net pension obligation and the annual pension cost compared to state contributions can be seen in the bar charts on page 7.

Funding Policy and Annual Pension Cost

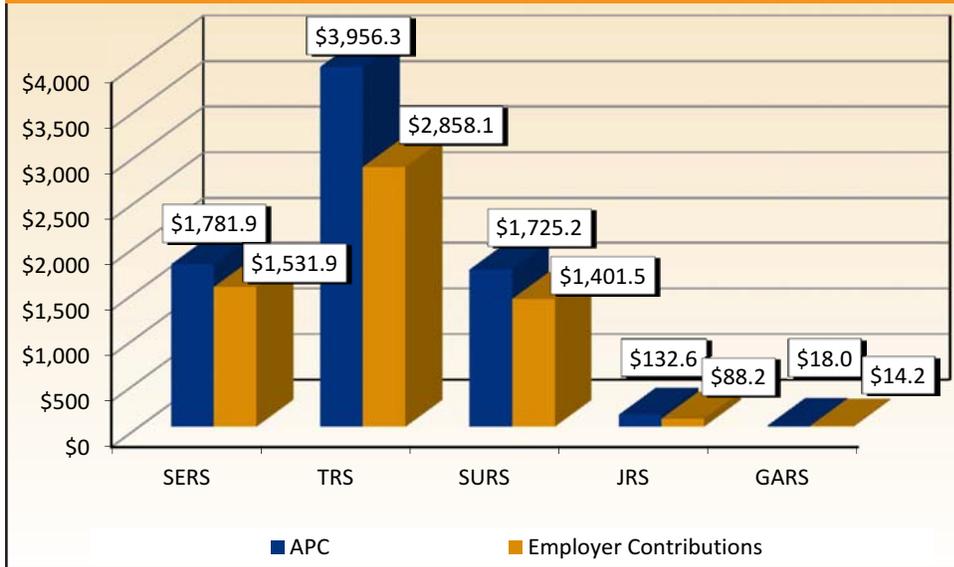
Member contributions are based on fixed percentages set by statute ranging from 4.0% to 12.5%. As of fiscal year 2013, the state's funding requirements have been established by statute (Public Act 88-593) effective July 1, 1995, and provide for a systematic 50-year funding plan with an ultimate goal to achieve "90% funding" of the systems' liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved, absent any subsequent legislative changes.

Total Liabilities (Primary Government) June 30, 2013 Dollar Amounts in Millions



LIABILITIES

**Annual Pension Costs (APC)
Fiscal Year 2013
Dollar Amounts in Millions**



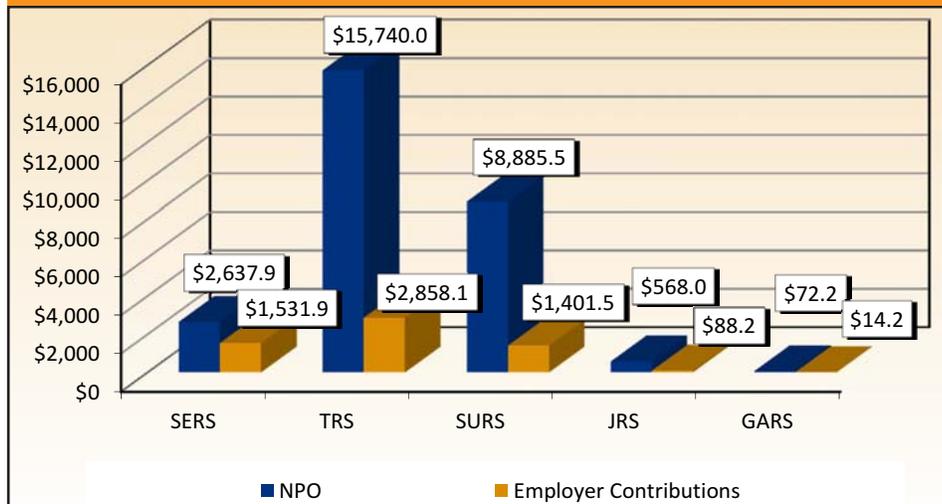
However, Public Act 94-0004 decreased the required funding levels for fiscal years 2006 and 2007 to \$938.4 million and \$1.375 billion, respectively, and required the state's contribution to increase in equal annual increments from fiscal year 2008 to 2010 so that by fiscal year 2011, the state would be contributing at the rate otherwise required by state law. (Public Act 98-599, effective June 1, 2014, will make changes to the funding policy in future fiscal years, depending on court action.)

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

ences between estimated and actual federal contributions. However, the State met its funding requirement established by statutory law for the fiscal year ended June 30, 2013. The current statutory law includes a "continuing appropriation" which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly's appropriation process. In

addition, contributions to the Teachers' Health Insurance Security Fund can reduce required contributions to Teachers' Retirement System for school districts. This statutory funding requirement differs significantly from the annual pension cost (APC) because the statutory plan does not conform with the GASB Statement No. 27 allowable accounting parameters. The state's APC for the current year and related information for each plan are included in the chart on this page.

**Net Pension Obligation (NPO)
Fiscal Year 2013
Dollar Amounts in Millions**



BONDS/DEBT

General and Special Obligation Bonds

General obligation bonds are backed by the full faith and credit of the State and special obligation bonds are supported and repaid only by a dedicated State revenue source. Both are considered direct debt of the State. General obligation bonds, excluding refunding bonds, aggregating \$850 million were issued during fiscal year 2013 at interest rates ranging from 1.10% to 5.52%. In addition, special obligation bonds, aggregating \$300 million, excluding refunding bonds, were issued during fiscal year 2013 at interest rates ranging from 0.75% to 3.88%. The increase in outstanding general and special obligation bonds since 1980 is shown to the right. The large increase between fiscal years 2000 and 2005 is due to the issuance of \$10 billion in general obligation bonds in 2003 to reduce the state's net pension obligation. Additional bonds were sold for pension payments in fiscal years 2010 and 2011 that contributed to the increase in the debt outstanding.

Debt Administration

At June 30, 2013, the state's general obligation bond ratings were as follows: Moody's Investors Services-"A3 with a Negative Outlook," Standard & Poor's Corporation (S & P)-"A- with a Negative Outlook," and Fitch Ratings-"A- with a Negative Outlook." These ratings were downgraded from A2 with a Stable Outlook by Moody's Investor Services, A+ with a Negative Outlook by "Standard & Poor's Corporation (S & P), and A with a Stable Outlook by Fitch Ratings at June 30, 2012. In addition, since June 30, 2013, the Standard & Poor's rating has been modified to A- with a Developing Outlook.

The State's special obligation – Build Illinois Bonds – ratings were A3 with a Negative Outlook from Moody's Investor Services, AAA with a Stable

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

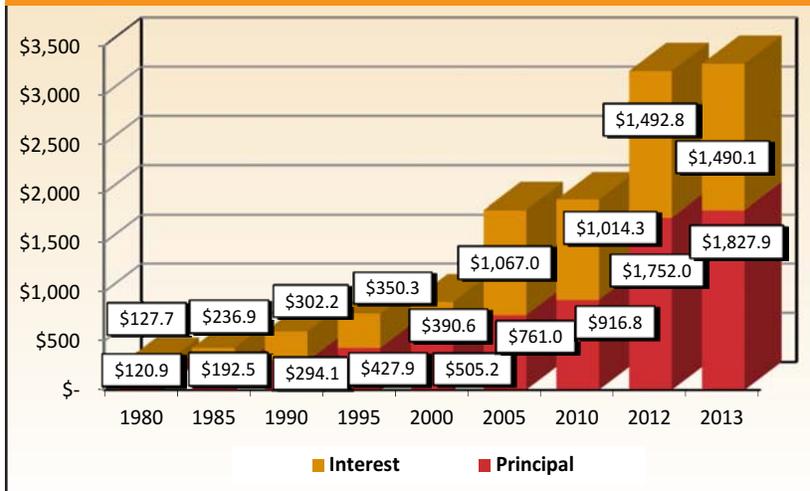


Outlook from Standard and Poor's, and AA+ with a Stable Outlook from Fitch Ratings as of June 30, 2013.

Debt Service

Debt service principal and interest costs of \$1.828 billion and \$1.490 billion, respectively, were paid in fiscal year 2013 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 more recently the sale of bonds for pension contributions, is displayed in the chart below.

Debt Service Selected Years Dollar Amounts in Millions



GOVERNMENTAL FUND REVENUES

NET POSITION

Net position is reported as the difference in the state's non-fiduciary assets and liabilities. When examined over time, increases or decreases in net position measure whether the state's financial position is improving or deteriorating. Illinois' net position was -\$44.8 billion at June 30, 2013. This represents a \$49 million decrease compared to the -\$44.7 billion in the previous fiscal year. The state has \$14.9 billion of net position invested in capital assets, \$8.0 billion of restricted net position, and -\$67.7 billion of unrestricted net position.

GOVERNMENTAL FUND REVENUES

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

Revenues from various sources for fiscal year 2013 for governmental funds are as follows.

Fiscal year 2013 governmental funds revenues increased by \$3.7 billion (6.3%) from fiscal year 2012 revenues. State-imposed taxes including income, sales, motor fuel, public utility, riverboat, hospital assessment, and miscellaneous other taxes remained the largest overall revenue source for fiscal year 2013, comprising nearly 61.0% of total governmental fund revenues, and increased \$2.3 billion (6.4%). Federal government revenues comprise 31.4% of total governmental fund revenues.

Income Taxes

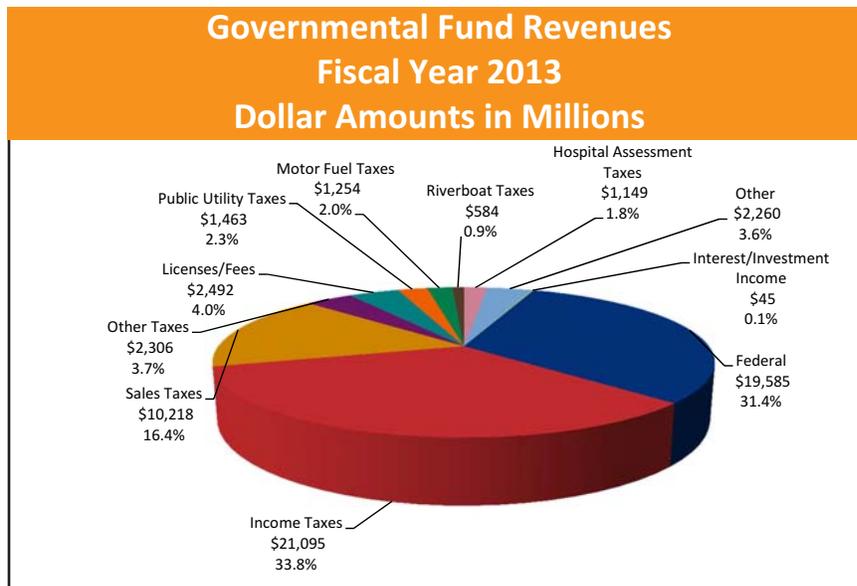
Income tax revenues for fiscal year 2013 were \$21.1 billion which is a \$1.5 billion (7.6%) increase from fiscal year 2012 income tax revenues of \$19.6 billion.

Sales Taxes

Sales taxes of \$10.2 billion remained the second largest tax revenue source for fiscal year 2013. Sales taxes increased \$423 million (4.3%) from fiscal year 2012.

Federal Government Revenues

Federal government revenues increased \$1.4 billion (7.7%) from \$18.2 billion in fiscal year 2012 to \$19.6 billion in fiscal year 2013, and continued as the second largest overall revenue source behind taxes for the state's governmental funds.



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

GOVERNMENTAL ACTIVITY EXPENDITURES

GOVERNMENTAL ACTIVITY EXPENDITURES

Expenditures for governmental activities are presented on the modified accrual basis of accounting and are generally recognized when the fund liability is incurred regardless of when payment is made except for long-term liabilities. Expenditures for long-term liabilities are recognized in the period in which the liability has matured. Governmental fund expenditures of \$63.0 billion in fiscal year 2013 increased \$793 million (1.3%) from 2012 and were \$589 million more than revenues on a GAAP basis.

Health and Social Services Expenditures

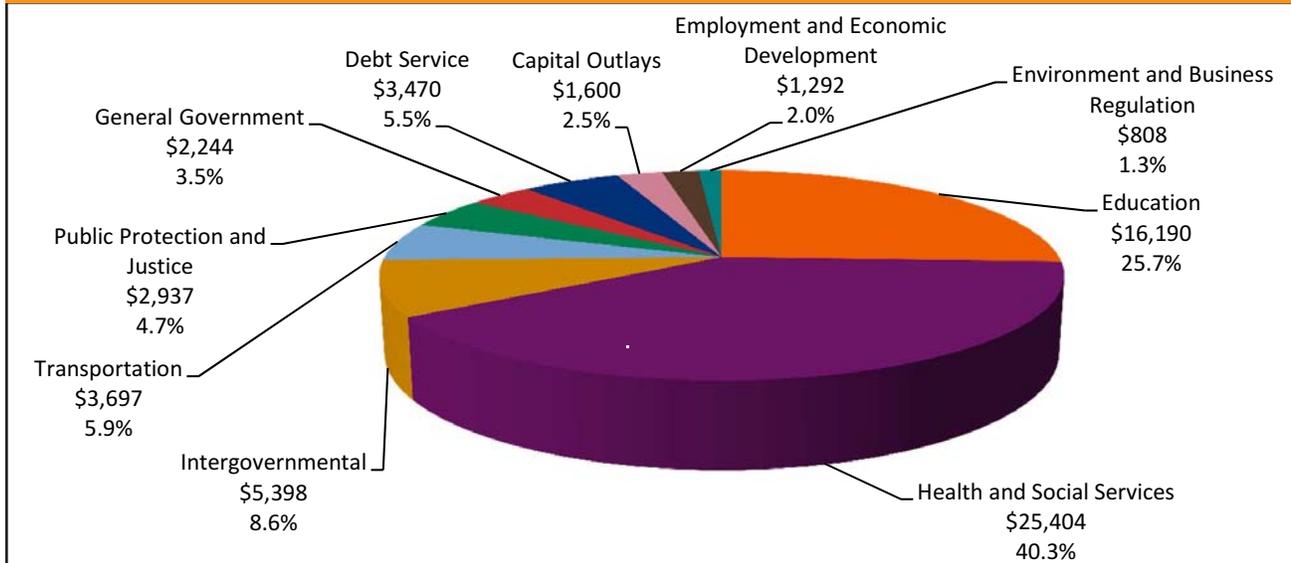
Health and social services expenditures of \$25.4 billion were the largest expenditure function for

fiscal year 2013, decreasing by \$239 million from fiscal year 2012. This expenditure function is 40.3% 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 2013. Education expenditures of \$16.2 billion increased \$1.1 billion (7.3%) from fiscal year 2012 on a GAAP basis and comprise 25.7% of total governmental expenditures.

**Governmental Fund Expenditures
Fiscal Year 2013
Dollar Amounts in Millions**



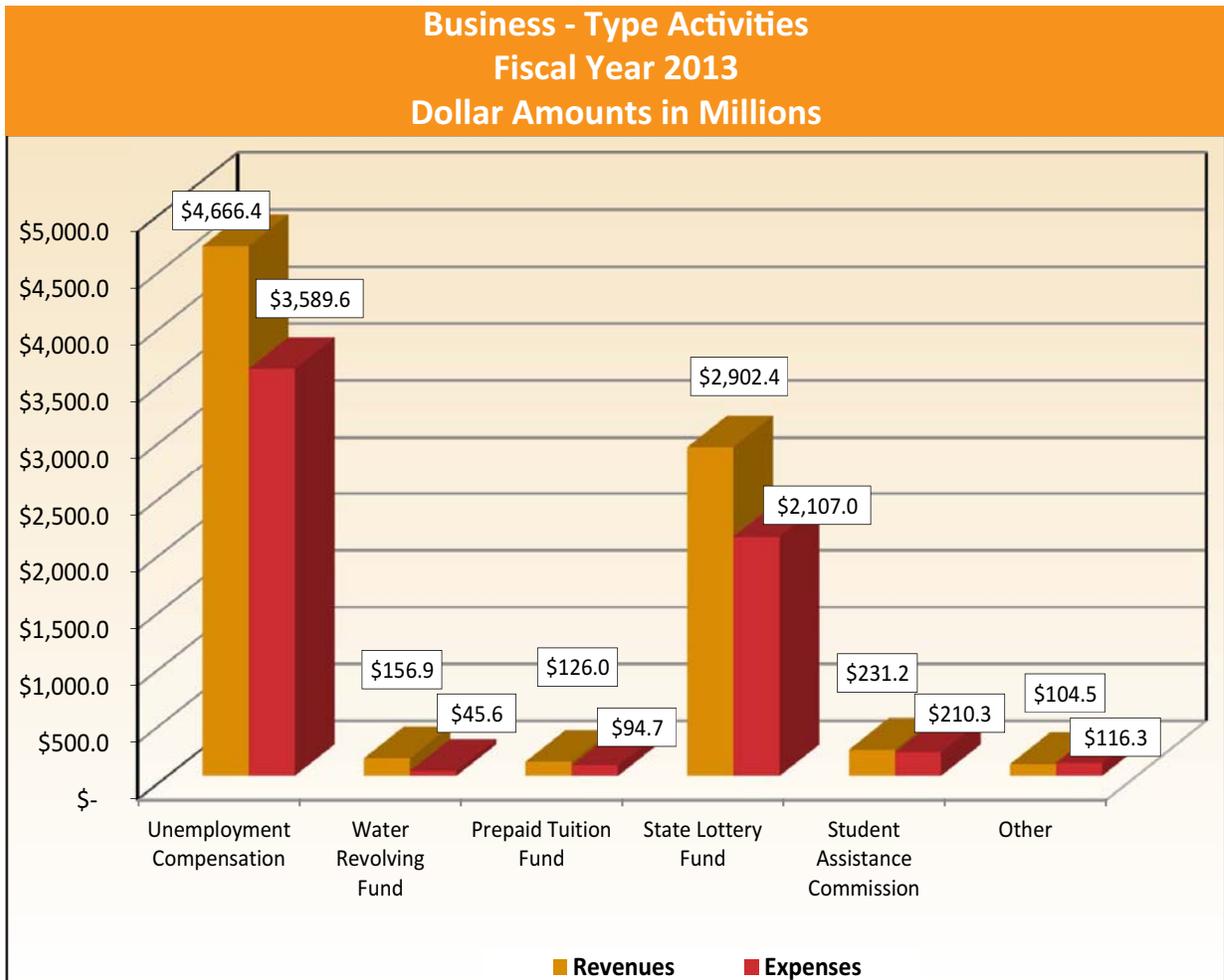
BUSINESS-TYPE ACTIVITIES

BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

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

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

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



FISCAL SUMMARY

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

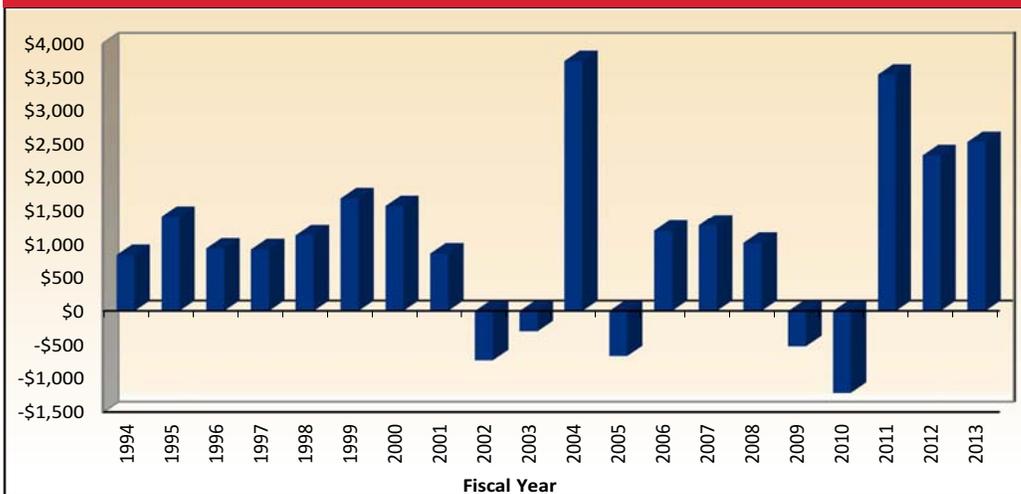
For fiscal year 2013, General Funds base revenues increased \$2.531 billion. Revenues were impacted primarily by an unexpected increase in individual and corporate income taxes as residents and businesses accelerated transactions to take advantage

of 2012 federal tax rates. Base expenditures increased \$1.767 billion for the year. Spending growth was due primarily to increases in retirement contributions spending.

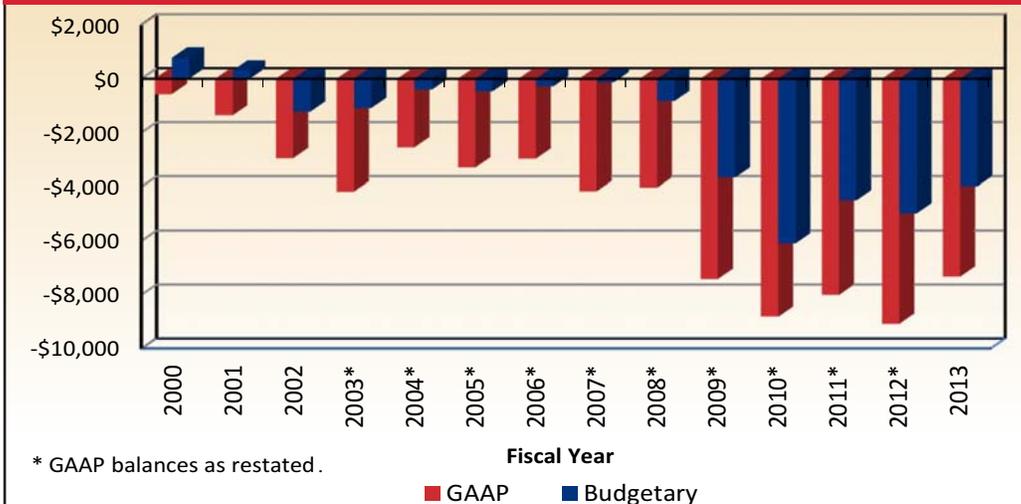
Fiscal year 2013 resulted in an improvement in the General Funds budgetary balance (measured on a cash basis). The balance increased from a \$4.984 billion *deficit* at the end of fiscal year 2012 to a \$3.988 billion *deficit* this year.

The state's General Fund GAAP balance improved from a restated \$9.078 billion deficit in fiscal year 2012, to a \$7.334 billion deficit in fiscal year 2013.

Changes in General Funds Base Revenue Dollar Amounts in Millions



General Funds Group GAAP and Budgetary Balances Dollar Amounts in Millions



GENERAL FUNDS BASE REVENUE

General Funds total revenues grew \$2.531 billion or 7.4% in fiscal year 2013, increasing to \$36.603 billion from \$34.072 billion in fiscal year 2012. Excluding the transfer of \$275 million from the Budget Stabilization Fund, base revenues increased the same amount and 7.5%. While the economy is improving, one factor had significantly impacted the growth in base revenues. In April 2013, there was an unexpected surge in individual and corporate income tax revenues as residents and businesses accelerated transactions to take advantage of the lower 2012 federal tax rates. While state revenues increased, federal revenues grew as well in fiscal year 2013 as the dramatic growth in income tax revenues allowed for the payment of reimbursable Medicaid expenditures.

State sources increased \$2.059 billion or 6.8% as cash receipts grew \$1.971 billion and transfers in from other funds increased by \$88 million. Federal sources increased \$472 million or 12.8%.

Because of the April surge in income tax revenues, personal income taxes increased \$1.026 billion or

6.6%. Over the year, employment in Illinois increased by over 62,000 jobs and Illinois personal income was up 3.1%. The stock market had increased for the year and finally recovered from the recession. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds increased \$716 million, or 29.1%. The growth was from the April surge and the growth in before-tax corporate profits nationally of 9.9% in fiscal year 2013.

Retail sales for the year reflected the improving economy as the processing of sales tax vehicle transaction forms (auto sales) increased approximately 1.9%. As a result, revenues from the state sales tax totaled \$7.355 billion, an increase of \$129 million or 1.8%. Nationally, retail sales for the fiscal year were up 4.6%.

Transfers in from other funds increased \$88 million or 4.7% for the year totaling \$1.953 billion. Lottery transfers into the Common School Fund were up \$16 million while riverboat gambling

General Funds Revenue (Millions of Dollars)												
	Fiscal Year										Change From FY2012 to FY2013	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Amount	Percent
Personal Income Tax	\$ 7,272	\$ 7,979	\$ 8,635	\$ 9,408	\$ 10,320	\$ 9,223	\$ 8,511	\$ 11,225	\$ 15,512	\$ 16,538	\$ 1,026	6.6 %
Corporate Income Tax	936	1,172	1,428	1,750	1,860	1,710	1,360	1,851	2,461	3,177	716	29.1
Sales Taxes	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226	7,355	129	1.8
Transfers In:												
Lottery Fund	570	614	670	622	657	625	625	632	640	656	16	2.5
Riverboat Gaming*	528	542	685	685	564	430	383	324	340	345	5	1.5
Other Transfers In	2,554	1,357	746	939	679	538	1,671	2,204	885	952	67	7.6
Total, Transfers In	3,652	2,513	2,101	2,246	1,900	1,593	2,679	3,160	1,865	1,953	88	4.7
Public Utility Taxes	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995	1,033	38	3.8
Other Tax Sources	2,364	2,588	2,304	2,266	2,392	2,110	2,066	1,864	2,056	2,118	62	3.0
Base State Sources	\$ 21,634	\$ 21,903	\$ 22,634	\$ 23,937	\$ 24,844	\$ 22,577	\$ 22,013	\$ 26,080	\$ 30,115	\$ 32,174	\$ 2,059	6.8 %
Federal Sources	5,189	4,257	4,725	4,703	4,815	6,567	5,920	5,386	3,682	4,154	472	12.8
Total Base Revenue	\$ 26,823	\$ 26,160	\$ 27,359	\$ 28,640	\$ 29,659	\$ 29,144	\$ 27,933	\$ 31,466	\$ 33,797	\$ 36,328	\$ 2,531	7.5 %
Transfer from Budget												
Stabilization Fund	226	276	276	276	276	276	276	276	275	275	0	0.0
Interfund Borrowing	0	0	0	0	0	0	0	496	0	0	0	N/A
Cash Flow Transfer	0	982	0	456	1,503	300	870	259	0	0	0	N/A
Short-Term Borrowing	0	765	1,000	900	2,400	2,400	1,250	1,300	0	0	0	N/A
Total Revenue	\$ 27,049	\$ 28,183	\$ 28,635	\$ 30,272	\$ 33,838	\$ 32,120	\$ 30,329	\$ 33,797	\$ 34,072	\$ 36,603	\$ 2,531	7.4 %

* Excludes riverboat gaming receipts.

GENERAL FUNDS BASE REVENUE

transfers increased \$5 million. All other transfers in were up \$67 million due to the \$264 million transfer from the FY13/FY14 Backlog Payment Fund which offset declines from other transfers in, primarily from the Capital Projects Fund.

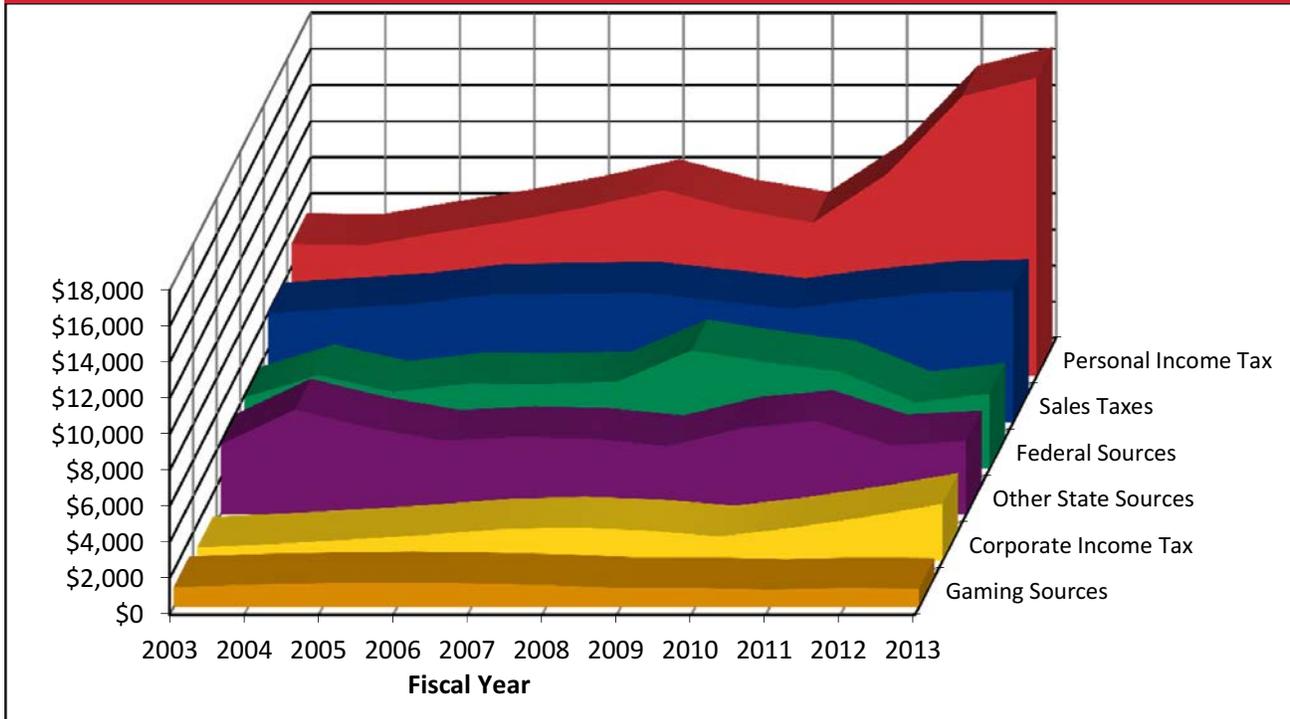
For fiscal year 2013, public utility taxes increased 3.8% with telecommunications tax revenues \$31 million higher, while revenues from the natural gas tax decreased \$1 million and electric tax receipts were up \$8 million. Gas and electric are consumption-based taxes and change with increases or decreases in usage.

Receipts from other tax sources were up \$62 million or 3.0% for the year. Inheritance tax receipts increased \$58 million.

Federal sources increased \$472 million or 12.8% in fiscal year 2013 to a total of \$4.154 billion. In April, federal revenues grew \$608 million as the increased income tax revenues and reimbursed federal revenues were used to pay the backlog in Medicaid bills.

For fiscal year 2013, income and sales taxes brought in 74.0% of total General Funds revenues, while federal sources and other sources accounted for 11.3% and 14.7%, respectively. While the economy remains a major factor in determining General Funds revenue performance, the surge in income taxes in April had a significant impact.

General Funds Base Revenues
Dollar Amounts in Millions



GENERAL FUNDS BASE SPENDING

General Funds base expenditures for fiscal year 2013, which excludes borrowing repayments, totaled \$35.235 billion, an increase of \$1.767 billion or 5.3% from fiscal year 2012 spending. Of this total, the spending by state agencies increased by \$1.084 billion and regular transfers out increased by \$683 million. Including the fiscal year 2013 increase, base spending from the General Funds has increased by an average of \$1.121 billion over the last nine fiscal years.

Looking at all cash expenditures, Illinois General Funds transfers to the Budget Stabilization Fund were down \$275 million, and interfund borrowing repayments were down \$222 million. There were no short-term borrowing repayments or cash flow transfers in fiscal years 2012 or 2013.

For fiscal year 2013, the State Board of Education, the Departments of Healthcare and Family Services (formerly the Department of Public Aid),

Human Services, Central Management Services, Corrections, and Higher Education spending accounted for \$22.600 billion or 74.6% of all agency spending.

The Department of Healthcare and Family Services (DHFS) had the highest state agency spending in fiscal year 2013 and accounted for 22.2% of total agency spending. DHFS spending of \$6.726 billion is \$1.432 billion, or 17.6%, less than fiscal year 2012. State employee health insurance appropriations were shifted to the Department of Central Management Services (CMS) in fiscal year 2013, which accounted for the reduction. As a result, CMS had the largest increase in expenditures among the major agencies of \$1.406 billion or 1,874.7%.

The State Board of Education was the agency with the second highest spending in fiscal year 2013 with \$6.539 billion or 21.6% of total state agency

General Funds Expenditures (From Current Year Appropriations)													
By Major Agency													
(Millions of Dollars)													
Agency	Fiscal Year										Change from		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	FY 2012 to FY 2013	Amount	Percent
Healthcare and Family Services (Public Aid)	\$ 5,690	\$ 4,990	\$ 7,343	\$ 7,725	\$ 8,089	\$ 9,556	\$ 7,239	\$ 7,309	\$ 8,158	\$ 6,726	\$ (1,432)	(17.6)	%
State Board of Education	5,471	5,751	6,045	6,472	6,995	7,357	7,273	6,912	6,739	6,539	(200)	(3.0)	
Human Services	3,597	3,747	3,817	3,885	4,086	4,144	3,997	3,894	3,415	3,448	33	1.0	
Higher Education	2,308	2,210	2,190	2,269	2,195	2,398	2,230	2,146	2,844	3,234	390	13.7	
Teachers Retirement	805	942	610	814	1,110	1,527	914	256	2,494	2,790	296	11.9	
Central Management Services	1,045	983	95	105	82	74	88	96	75	1,481	1,406	1,874.7	
Corrections	1,183	1,198	1,170	1,119	1,208	1,308	1,156	1,205	1,210	1,172	(38)	(3.1)	
Aging	256	331	352	421	458	537	653	646	731	1,060	329	45.0	
State Employees Retirement	0	66	0	0	0	0	0	39	904	1,049	145	16.0	
Children and Family Services	795	754	803	771	887	906	847	840	806	721	(85)	(10.5)	
Judicial Agencies	335	325	305	322	351	376	310	323	375	398	23	6.1	
Secretary of State	120	126	125	131	143	144	257	259	258	250	(8)	(3.1)	
State Police	177	175	173	193	210	215	265	272	271	245	(26)	(9.6)	
Revenue	159	125	127	148	156	155	128	134	123	108	(15)	(12.2)	
Other Agencies	737	819	958	1,136	1,201	1,091	961	1,138	894	1,093	199	22.3	
Prior Year Adjustments	(48)	25	(10)	(11)	(14)	(14)	(17)	(22)	(88)	(21)	67	N/A	
Total, General Funds Warrants Issued	\$ 22,630	\$ 22,567	\$ 24,103	\$ 25,500	\$ 27,157	\$ 29,774	\$ 26,301	\$ 25,447	\$ 29,209	\$ 30,293	\$ 1,084	3.7	%
Regular Transfers Out	2,519	3,657	3,059	2,973	3,201	3,185	3,304	5,070	4,259	4,942	683	16.0	
Base General Funds Expenditures	\$ 25,149	\$ 26,224	\$ 27,162	\$ 28,473	\$ 30,358	\$ 32,959	\$ 29,605	\$ 30,517	\$ 33,468	\$ 35,235	\$ 1,767	5.3	%
Short-Term Borrowing Repayment	990	768	1,014	11	1,503	1,424	2,276	1,322	0	0	0	N/A	
Transfer to Budget Stabilization Fund	226	276	276	276	276	276	0	276	550	275	(275)	(50.0)	
Repayment of Interfund Borrowing	0	0	0	0	0	0	0	9	355	133	(222)	(62.5)	
Cash Flow Transfer	0	979	0	1,356	2,400	300	870	260	0	0	0	N/A	
Total, General Funds Expenditures	\$ 26,365	\$ 28,247	\$ 28,452	\$ 30,116	\$ 34,537	\$ 34,959	\$ 32,751	\$ 32,384	\$ 34,373	\$ 35,643	\$ 1,270	3.7	%

GENERAL FUNDS BASE SPENDING

spending. The State Board of Education's spending decreased slightly by \$200 million or 3.0% from fiscal year 2012. General state aid to school districts accounts for the largest portion (65.6% or \$4.287 billion) of State Board spending.

In fiscal year 2013, the Department of Human Services' spending increased slightly to \$3.448 billion from \$3.415 billion. Fiscal year 2013 Corrections spending of \$1.172 billion was a decrease of \$38 million or 3.1% from fiscal year 2012. The Department on Aging's spending increased \$329 million or 45.0%; appropriations were up \$363 million after a supplemental appropriation near the end of the fiscal year.

Higher Education agencies' spending increased from \$2.844 billion in fiscal year 2012 to \$3.234 billion, an increase of 13.7% in fiscal year 2013. However, all of that increase—\$502 million, compared

to a \$112 million decrease in other higher education spending—was in spending by the State Universities Retirement System, which paid its pension costs directly in fiscal years 2012 and 2013 instead of having them paid through the issuance of bonds. The same is true for the Teachers' Retirement System, which increased expenditures 11.9% to \$2.790 billion in fiscal year 2013. The State Employees' Retirement System had \$1.049 billion in expenditures, a 16.0% increase from fiscal year 2012, as retirement spending from the General Funds continues to be appropriated directly to the retirement system instead of each agency.

Transfers Out increased \$683 million or 16.0% due primarily to increased transfers to the Local Government Distributive Fund and the Healthcare Provider Relief Fund.

Fiscal Year	General Funds				General Revenue Fund	
	GAAP Balance	Change	Budgetary Balance	Change	Budgetary Balance	Change
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 *	(8,010)	808	(4,507)	1,587	(4,966)	1,176
2012 *	(9,078)	(1,068)	(4,984)	(477)	(4,129)	837
2013	(7,334)	1,744	(3,988)	996	(3,017)	1,112

* GAAP balance as restated.

FISCAL CLIMATE - FISCAL YEAR 2013

Fiscal year 2013 began with the state's fiscal position showing little if any improvement. As a result, it appeared that the state's ability to pay its bills in a timely manner would not change. With fiscal year 2012 General Funds lapse period obligations totaling \$5.024 billion, a significant portion of state sources of revenue in fiscal year 2013 were needed to pay fiscal year 2012 liabilities.

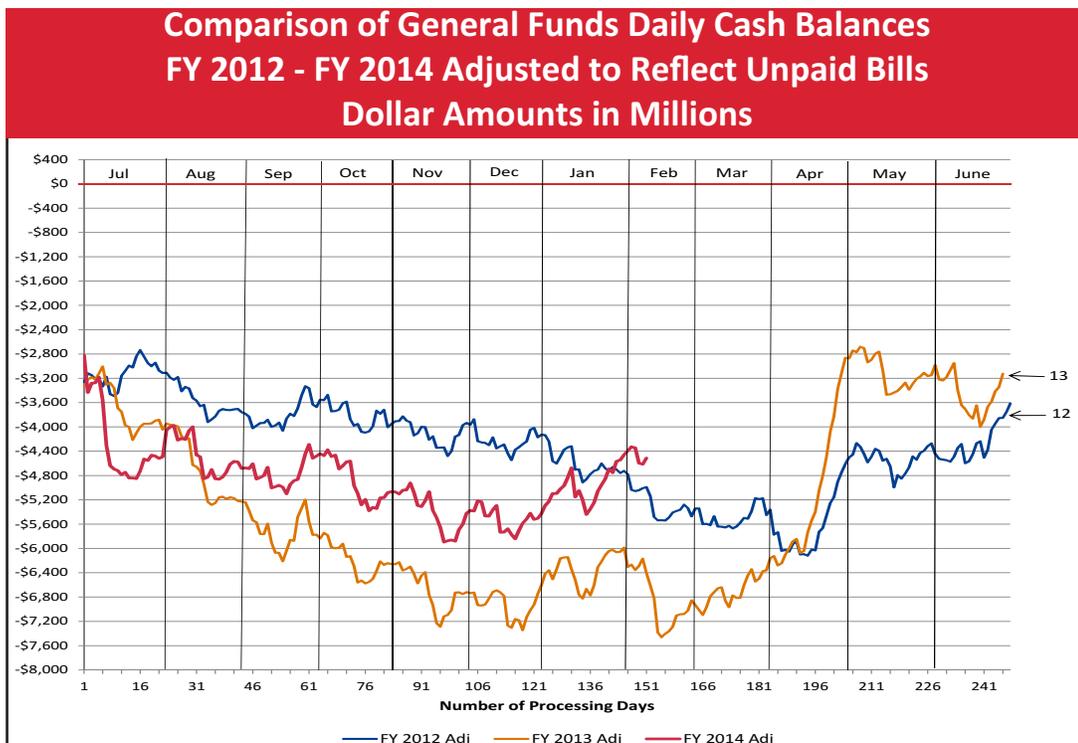
While original fiscal year 2013 appropriations from the General Funds were \$543 million below fiscal year 2012, the decline was due primarily to a dramatic underfunding for state employee health insurance. The original General Revenue Fund state employee health insurance appropriation was less than half the amount in fiscal year 2012 (and was fully expended by the end of December 2012). This reduction and other cuts in social services appropriations resulted in an increase in demands for supplemental appropriations as the fiscal year progressed. Programs in the Departments of Aging and Children and Family Services, as well as workers' compensation, were expected to deplete their spending authority before the end of the fiscal year.

At the end of September 2012, the backlog of payables at the Comptroller's Office (IOC) in the General Funds totaled \$5.927 billion. The backlog

of unpaid bills had grown by more than \$2 billion when compared to the same time last year and at the end of fiscal year 2012. Furthermore, the backlog included \$1.394 billion in prior year liabilities that had to be paid before the end of the calendar year as the state's lapse period was again extended to the end of December 2012. The growth in payables occurred in spite of an increase of \$529 million in base revenue, primarily from federal sources, in the first quarter. Also, \$133 million was paid back from the fiscal year 2011 interfund borrowing.

After six months, base revenues were up \$1.057 billion primarily from income tax receipts and federal revenues. However, the state ended the second quarter in December 2012 with \$6.888 billion in unpaid bills. The backlog grew \$961 million from the end of the first quarter and was \$2.615 billion more than the same time in the prior year.

By the end of the third quarter of fiscal year 2013, the backlog of bills at the IOC totaled \$6.510 billion. While this was a \$378 million improvement from the end of the second quarter, it was \$940 million higher than at the end of March 2012. After nine months, base revenues were up \$1.548 billion and base spending had grown by \$1.634 billion.



FISCAL CLIMATE

In the third quarter, appropriations from the General Funds were increased by almost \$604 million with the passage of a supplemental appropriation bill which addressed some, but not all, of the shortfalls in spending authority previously mentioned. For example, Aging’s Community Care Program had expended most of its appropriation by the end of March.

The start of the fourth quarter brought an unexpected surprise. Income tax revenue surged as individuals and businesses accelerated transactions to take advantage of federal tax rates. This resulted in federal revenues growing from the payment of reimbursable Medicaid spending. While this April revenue was directed towards paying the state’s bill backlog, additionally appropriations were increased \$1.2 billion to address the previously mentioned shortfalls in some spending lines. Final General Funds appropriations for fiscal year 2013 were \$30.848 billion.

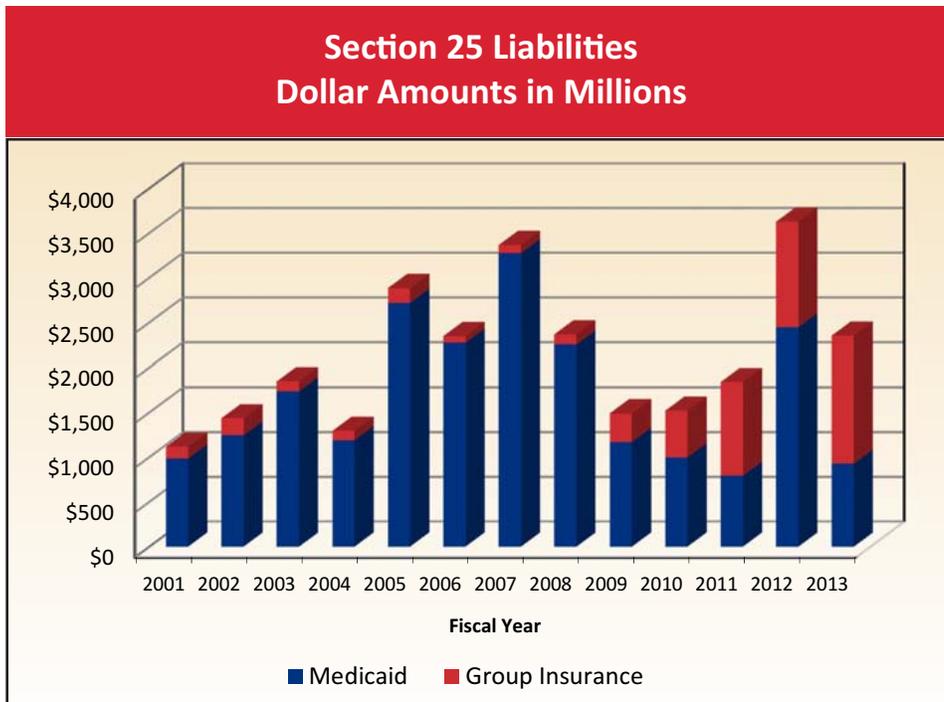
At the end of fiscal year 2013, the backlog of unpaid bills and fund transfers at the IOC in three of the four General Funds totaled \$3.280 billion. Beyond this total, there was over \$2.0 billion in outstanding liabilities – primarily Medicaid and state employee health insurance bills – that had not been submitted to the IOC.

While this end of year backlog was a modest improvement over the prior year, cash flow problems continued to persist. The backlog remains in spite of a surge in income tax revenues for fiscal year 2013 as appropriations increased to allow agency bills to be processed more timely.

Fiscal year 2013 lapse period spending of \$898 million once again resulted in over \$4 billion in fiscal year 2014 revenues used to pay prior year liabilities. On a budgetary basis, the General Funds fiscal end of year balance improved from a negative \$4.984 billion for fiscal year 2012 to a negative \$3.988 billion for fiscal year 2013. Section 25 liabilities by the end of the fiscal year improved and totaled \$2.4 billion but will still contribute to the financial difficulties for the next year.

A Look at Fiscal Year 2014

With a reduction in the backlog of outstanding payables and in Section 25 liabilities, fiscal year 2014 began with an improved fiscal position compared to prior years. However, improvement may not continue in fiscal year 2014 as certain revenues are expected to decline and appropriations are up \$324 million. Individual and corporate income taxes are estimated to decrease due to the April 2013 surge in income tax revenues drawing taxable income into fiscal year 2013 instead of the current fiscal year.



FISCAL CLIMATE

Fiscal year 2014 General Funds appropriations totaled \$31.172 billion. Appropriations for the Universities Retirement System were switched to the General Revenue Fund (GRF) this year which should help alleviate the cash flow problems for the Education Assistance Fund at the expense of the GRF. With revenues falling and spending growing, a deterioration of the financial position for the year is likely. This is particularly troubling since this is the last full year of added revenue from the temporary income tax increase.

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

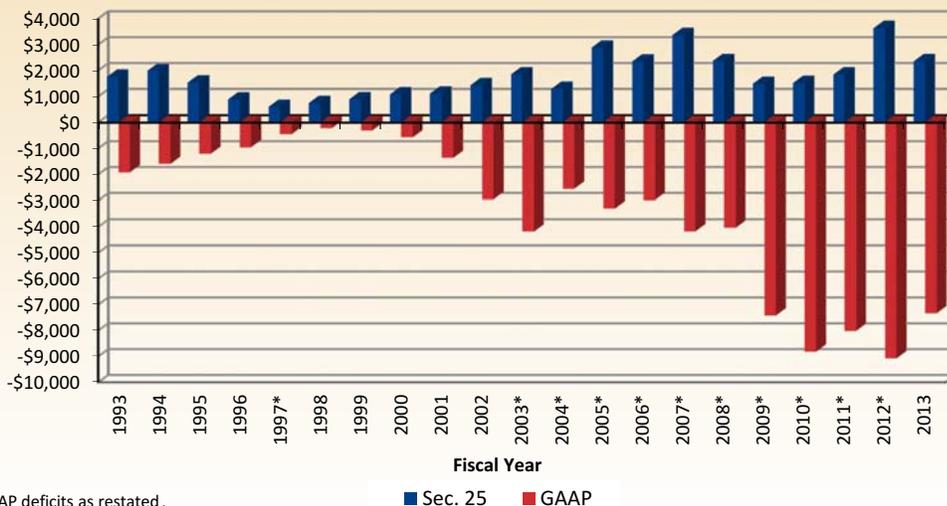
Through September 2013, base revenues increased 6.1% as income tax revenues increased (primarily from estimated tax payments), sales tax receipts had higher than expected growth, and a \$397 million transfer from the Income Tax Refund Fund exceeded budget estimates. Base spending increased 9.0% for the quarter as the state was able to pay all of its General Funds bills from the previous fiscal year. This is the earliest lapse period spending was completed since 2009.

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

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

In December 2013, the General Assembly passed and the Governor signed Public Act 98-599, which made significant changes to four of the state-funded retirement systems. While it has no budgetary impact this year, if approved by the courts it might improve the outlook for the state's fiscal position in future years. ■

Section 25 Liabilities and GAAP Deficits Dollar Amounts in Millions





The Vandalia State House, Vandalia, Illinois • Served as the Capitol 1836–1839



Old State Capitol, Springfield, Illinois • Served as the Capitol 1840–1876