

DANIEL W. HYNES
COMPTROLLER

www.ioc.state.il.us



EXECUTIVE SUMMARY

— FISCAL YEAR ENDED JUNE 30, 2008 —

FINANCIAL STATEMENTS



July, 2009

A MESSAGE TO ILLINOIS TAXPAYERS

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

The report combines information based on the state's *Comprehensive Annual Financial Report* prepared in accordance with Generally Accepted Accounting Principles (GAAP) for government and cash basis budgetary information contained in the *Traditional Budgetary Financial Report*. Both of these other reports can be accessed at our Web site, www.ioc.state.il.us, or by calling my office at (217) 782-6000 or (312) 814-2451.

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

In this *Executive Summary*, as in past reports, we examine the economic and fiscal climate in which future budgets will be considered. It is valuable for policy-makers to understand these issues in order to make informed decisions. It is also a useful resource for taxpayers to measure the effectiveness of governmental programs.

The fiscal year 2008 report notes that Illinois' cash position worsened as the budgetary deficit increased by \$699 million from a deficit of \$135 million to a deficit of \$834 million. However, there was a moderate improvement in the General Fund GAAP balance. The state ended fiscal year 2008 with a negative General Fund balance of \$3.934 billion indicating that the state's GAAP deficit decreased by \$237 million compared to the prior year. Section 25 liabilities decreased in fiscal year 2008, standing at \$2.367 billion as of June 30, 2008, and contributed to the improvement in the GAAP balance.

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

Sincerely,

Daniel W. Hynes
State Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO
State of Illinois

for the Fiscal Year Ended
June 30, 2007




President

Executive Director

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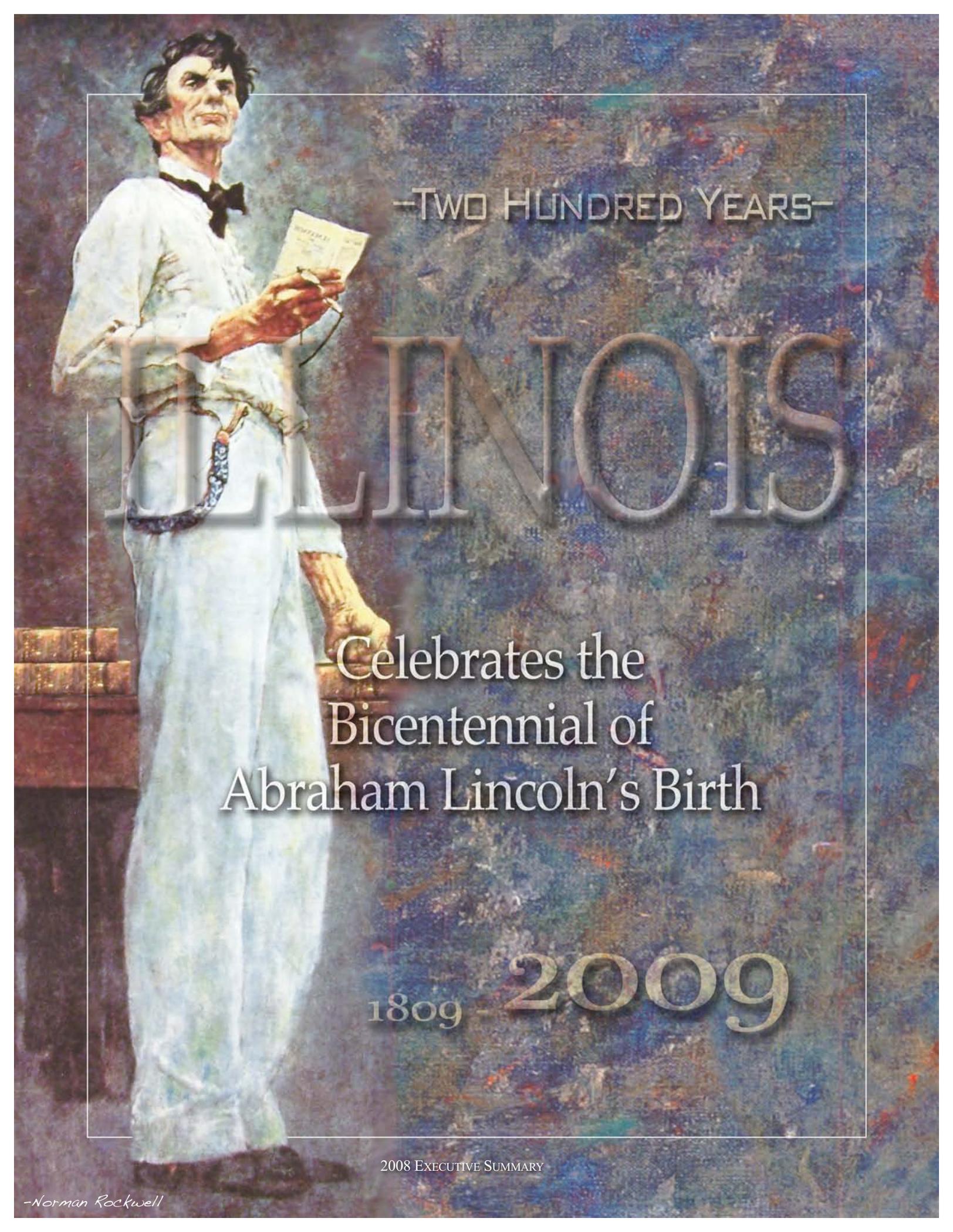
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A Norman Rockwell painting of Abraham Lincoln, standing in a white suit and bow tie, holding a document and a quill. The background is a textured, mottled blue and purple. The text is overlaid on the right side of the painting.

-TWO HUNDRED YEARS-

ILLINOIS

Celebrates the
Bicentennial of
Abraham Lincoln's Birth

1809 - 2009

2008 EXECUTIVE SUMMARY

INTRODUCTION

State Government Background

Geographically located in the central portion of the United States, Illinois is a diverse state that covers almost 56,000 square miles of land. Many of Illinois' approximately 12.9 million inhabitants live in urban areas, although there is a strong rural presence in the state as well. Nearly one-fourth or approximately 2.8 million of the state's residents live in Chicago, the third largest city in the country. Seven other municipalities including Aurora, Elgin, Rockford, Naperville, Joliet, Peoria, and the state's capital of Springfield have populations in excess of 100,000 with another twenty municipalities' populations estimated to be in excess of 50,000.

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

Responsibility for most of the day-to-day operations of state government and its programs resides in the executive branch, with the Governor overseeing the largest portion. Under the purview of the Governor there were twenty major departments in fiscal year 2008 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 70,144 persons at the end of fiscal year 2008, just 2,168 less than one year earlier. The Departments of Human Services (14,425), Corrections (11,335) and Transportation (5,790) and the Secretary of State (4,630) account for just over half of all direct government employees.

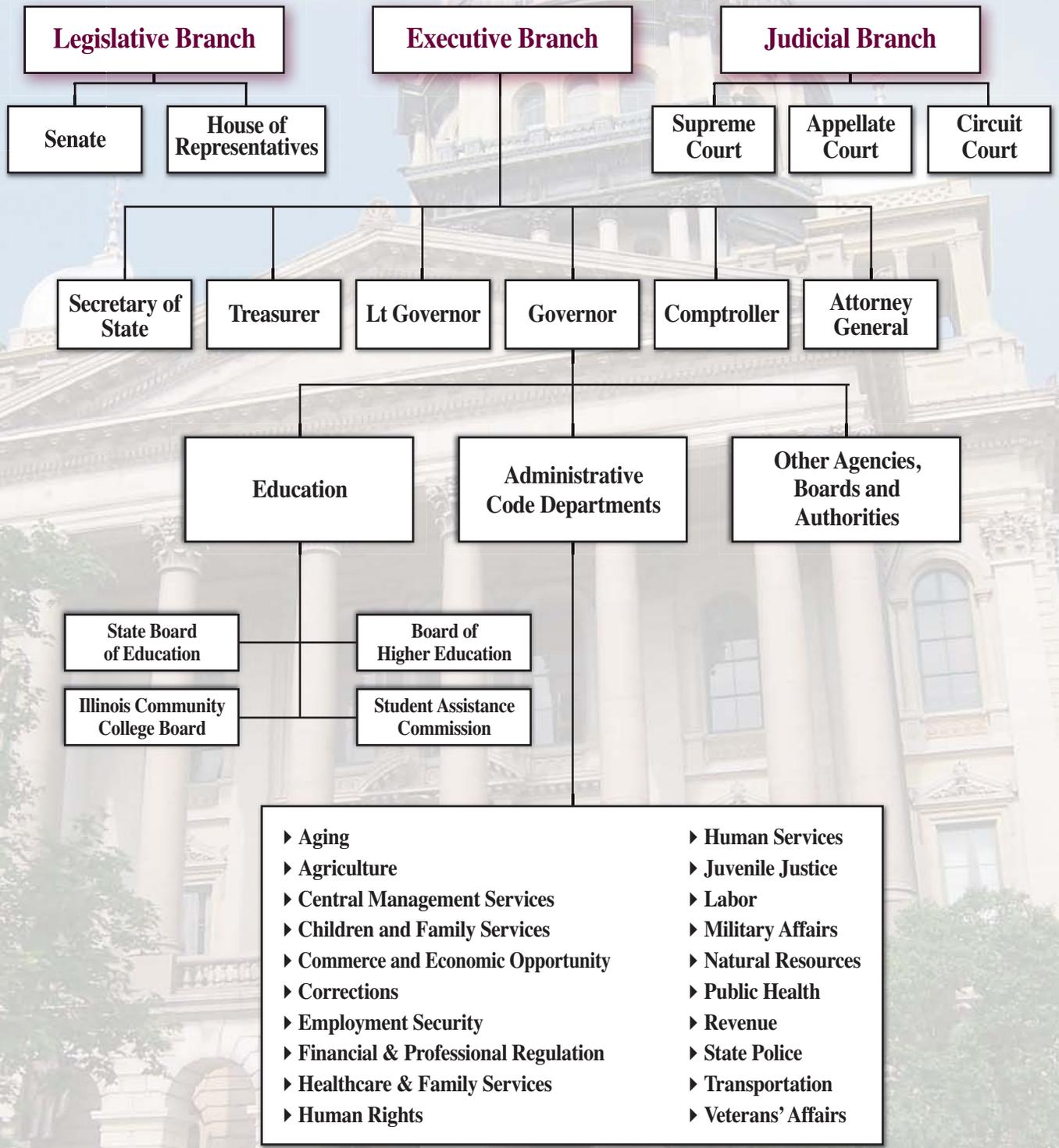
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 868 school districts and 3,894 schools. In fiscal year 2008, about 2.1 million public school children were instructed by just over 142,000 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 2008 fiscal year, approximately 550,000 students were enrolled in Illinois' public colleges and universities, and about 264,000 were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. The Department of Healthcare and Family Services' Division of Medical Programs administers the state's Medicaid and KidCare programs with more than 2.2 million people per month covered by Medicaid health services. The Department of Transportation administers the state's highway program through nine district offices with responsibility for the state's 17,000-mile state highway system.

Total 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 2008 was \$51.5 billion or approximately \$3,990 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$50.9 billion for the governmental funds with income taxes (\$13.5 billion), federal revenues (\$15.1 billion), and sales taxes (\$10.1 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$21.2 billion), and Education (\$13.3 billion). ■

ELECTORATE



Economic Outlook • Fiscal Year 2008

Fiscal year 2008 was a transition year for the Illinois economy, concluding five years of sustained economic growth. Other than the unemployment rate, the measures of Illinois economic activity were largely positive for the fiscal year. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.991 million workers in fiscal year 2008 an increase of 30,000 jobs or 0.5% above 2007 employment, but 54,000 jobs or 0.9% 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 6.390 million Illinoisans were employed in fiscal year 2008, up 55,000 or 0.9% from the prior year employment level.

The average Illinois unemployment rate increased from 4.6% in fiscal year 2007 to 5.6% for 2008, reversing a four year trend of declining unemployment rates. The increased average unemployment was caused by a 70,000 or 23.0% increase in average unemployment from 305,000 in fiscal year 2007 to 375,000 in fiscal year 2008.

The shift in Illinois employment from the manufacturing to the service sectors continued in fiscal year 2008. Average fiscal year 2008 manufacturing employment of 673,000 jobs was down 8,000 jobs or 1.1% from fiscal year 2007 and down 233,000 jobs or 25.7% 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 2.2% in fiscal year 2008 as a 6.0% increase in nominal personal income was offset by a 3.7% increase in the consumer price index. State personal income adjusted for inflation had increased 1.5% in fiscal year 2005, 1.2% in fiscal year 2006, and 3.7% in fiscal year 2007.

Fiscal Year 2009 and Beyond

The first half of fiscal year 2009 has seen a general and sharp decline in Illinois' economic indicators as a weakening housing sector has instigated widespread failures across financial markets. The average Illinois unemployment rate soared to 6.8% for the half year of the fis-

cal year as payroll employment dropped 69,500 or 1.2% from its prior year level. The seasonally adjusted Illinois unemployment rate reached 9.1% in March 2009 and economic forecasters do not expect a recovery to begin until fiscal year 2010.

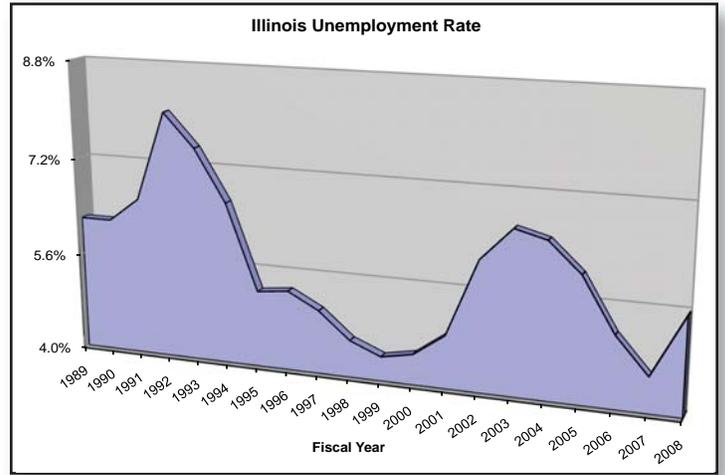
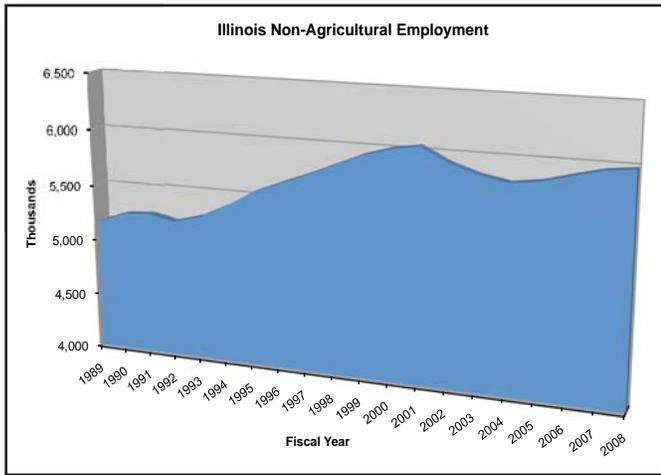
Illinois enters this period of economic uncertainty with many strengths. Home to 33 of the Fortune 500 companies in 2008, Illinois is tightly integrated into the international economy. With exports of \$48.9 billion in calendar 2007, Illinois ranked 5th highest among the states including a number 4 ranking for agricultural exports. To thrive in such a competitive climate, Illinois must maintain superior transportation and communication infrastructures, and provide educational and training opportunities to support a skilled and adaptable labor force, and foster businesses that create and transfer new technologies into the workplace.

Chicago is the transportation crossroads of the United States. It is home to O'Hare Airport which was again ranked as one of the World's Busiest Airports in 2007 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.

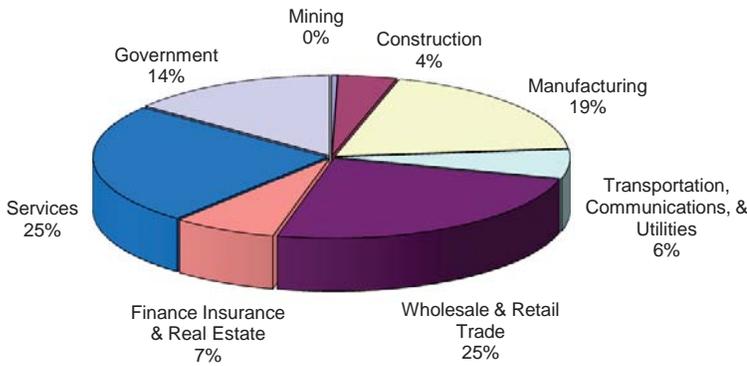
Illinois' educational resources include private universities such as the University of Chicago and Northwestern University as well as the twelve campus public system. In fiscal year 2008, Illinois private institutions served 264,000 students with another 202,000 served by the public universities. A statewide system of community colleges (347,000 students) and other training resources provide many additional educational opportunities.

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

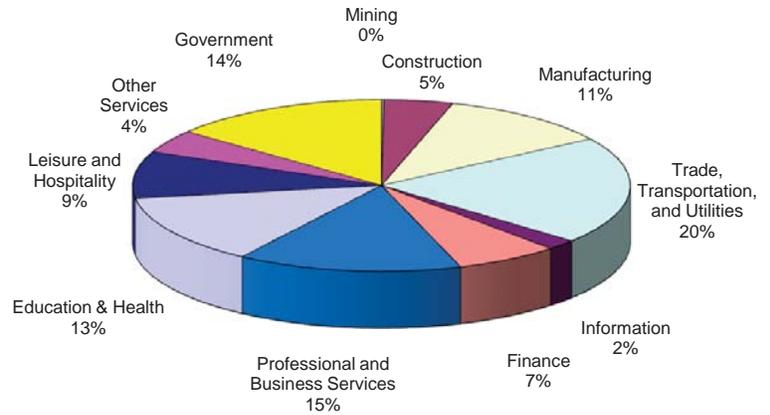
Year-End Economic Summary



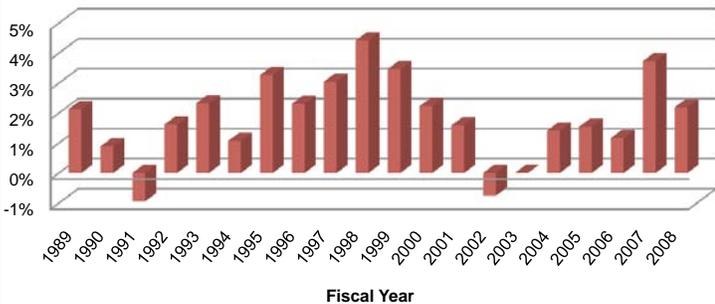
Illinois Employment by Industry
Fiscal Year 1989



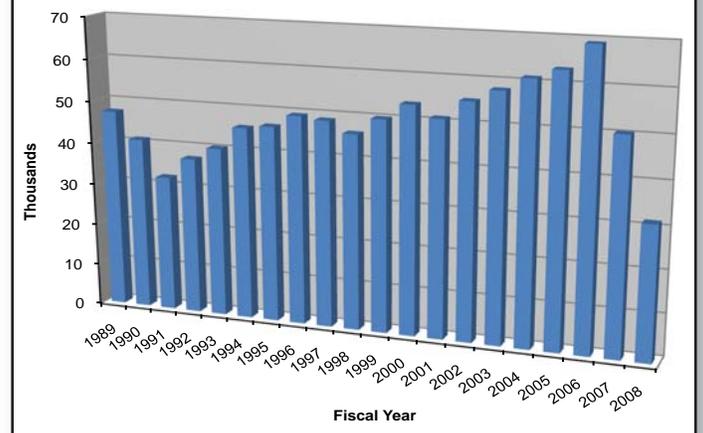
Illinois Employment by Industry
Fiscal Year 2008



Change in Illinois Personal Income
Adjusted for Inflation

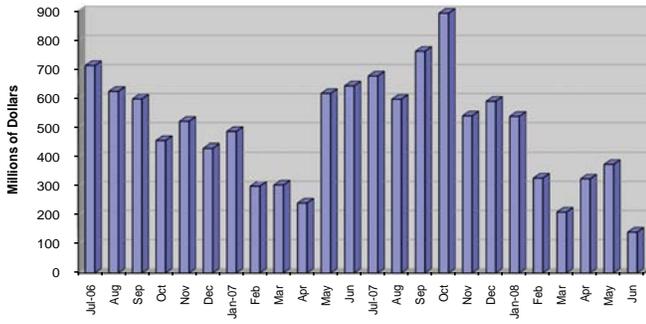


Illinois Housing Permits



Year-End Fiscal Summary

General Funds End-of-Month Available Cash Balances



Taxes Receivable

(in millions)	6/30/07	6/30/08	Change
Gross Balance	\$3,337	\$2,729	(\$608)
Uncollectibles	\$704	\$827	\$123

Major Unfunded and Long Term Liabilities

(in millions)	FY 2007	FY 2008
Net Pension Obligation	\$ 17,091	\$ 19,196
General Obligation Bonds	\$ 20,581	\$ 19,991
Build Illinois and Civic Center Bonds	\$ 2,399	\$ 2,301
Net Other Post-Employment Benefit Obligation	\$	\$ 1,205

G.O. Bond Rating

Moody's	Aa3
S&P	AA

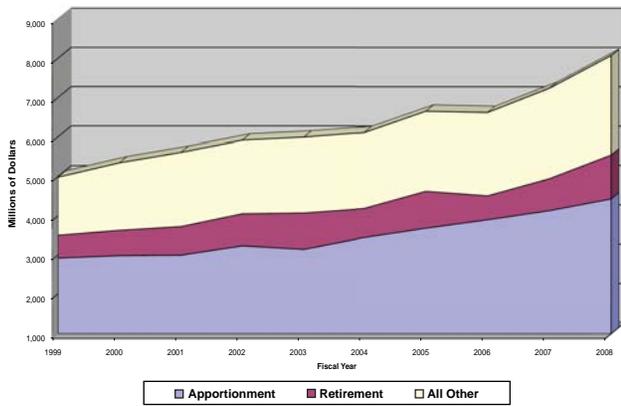
General Funds Fiscal Activity

(in millions)	FY 2007	FY 2008	Change
Beginning Balance	\$ 590	\$ 642	\$ 52
Revenues	\$ 30,272	\$ 33,838	\$ 3,566
Expenditures	\$ 30,220	\$ 34,339	\$ 4,119
Ending Balance	\$ 642	\$ 141	(\$501)
Lapse Period Warrants	\$ 777	\$ 975	\$ 198
Budgetary Balance	\$ (135)	\$ (834)	(\$699)

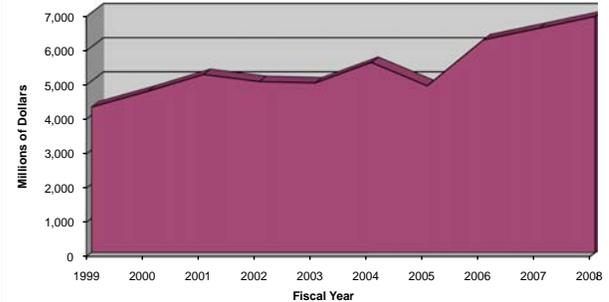
Section 25 Liabilities

(in millions)	6/30/07	6/30/08	Change
Liabilities	\$3,368	\$2,367	(\$1,001)

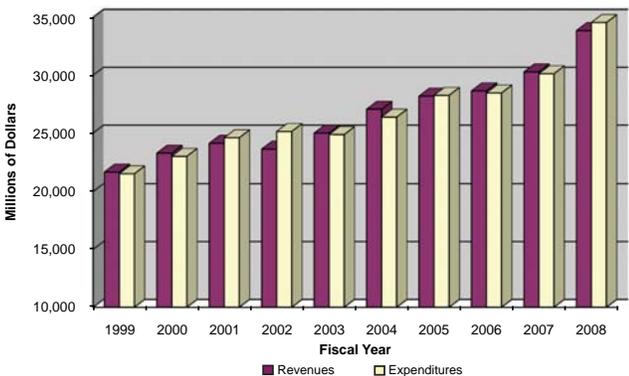
General Funds Elementary and Secondary Education Spending



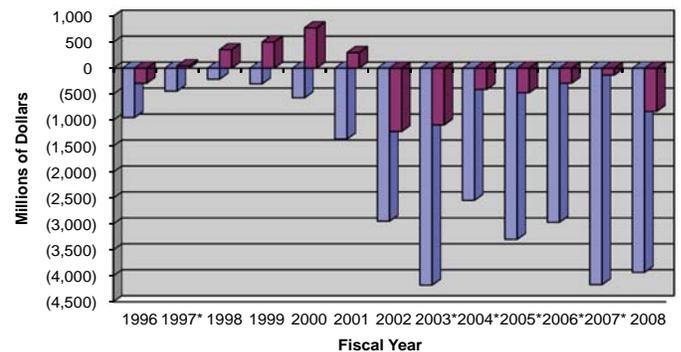
**General Funds Medical Assistance Grant Spending
Department of Healthcare and Family Services**



General Funds Revenues and Expenditures



**General Funds Group
GAAP and Budgetary Balances**



*GAAP balances as restated.

GAAP BASIS

GAAP Basis Financial Information Summary

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

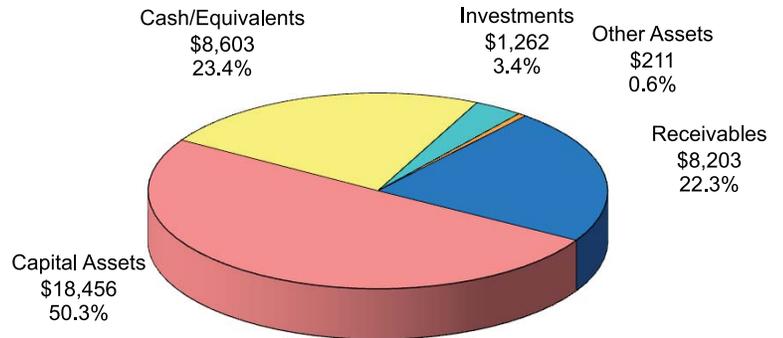
ASSETS

Total assets of the State of Illinois at June 30, 2008, were approximately \$36.7 billion, a decrease of \$3.7 billion from June 30, 2007. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised \$18.5 billion (50%) of the state's total assets.

LIABILITIES

Total liabilities of the state were approximately \$56.6 billion at June 30, 2008, an increase of \$229 million from June 30, 2007. The state's largest liability balances are the net pension obligation of \$19.2 billion (34%) and the general and special obligation debt liability of \$22.3 billion (39%).

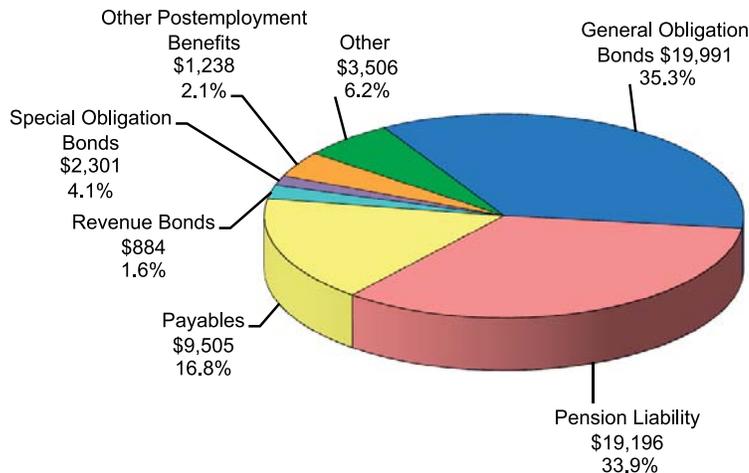
**Total Assets (Primary Government)
June 30, 2008
Millions of Dollars**



Net Pension Obligation

The net pension obligation at June 30, 2008, for the state's five pension trust funds was \$19.2 billion, an increase of approximately \$2.1 billion from June 30, 2007. The net pension obligation is the difference between the annual actuarially required contributions and the actual contributions made to the state's retirement systems. The net pension obligation and the annual pension cost compared to state contributions can be seen in the bar charts on page 7.

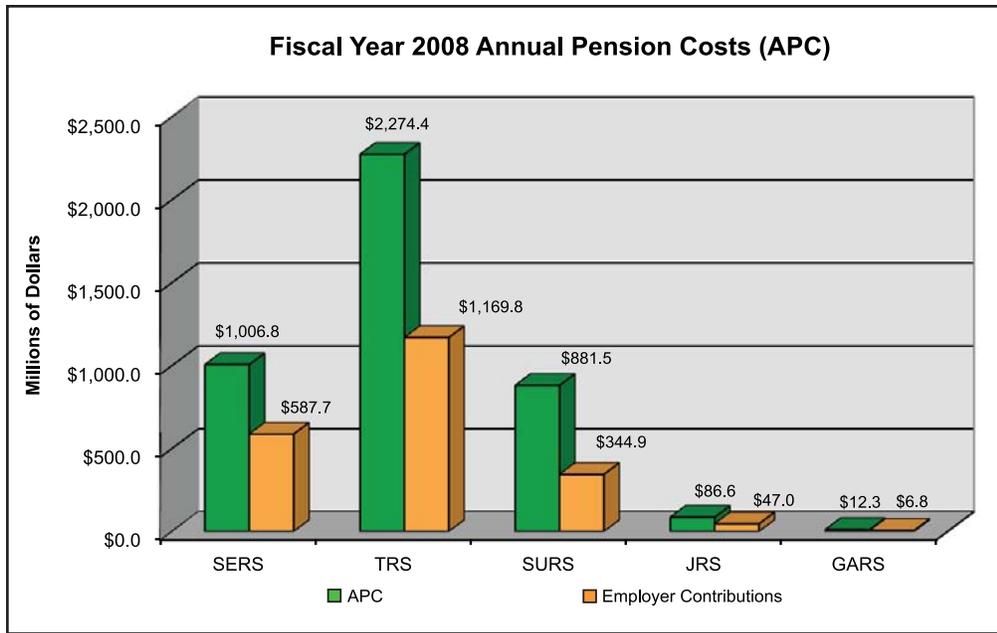
**Total Liabilities (Primary Government)
June 30, 2008
Millions of Dollars**



Funding Policy and Annual Pension Cost

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

Liabilities

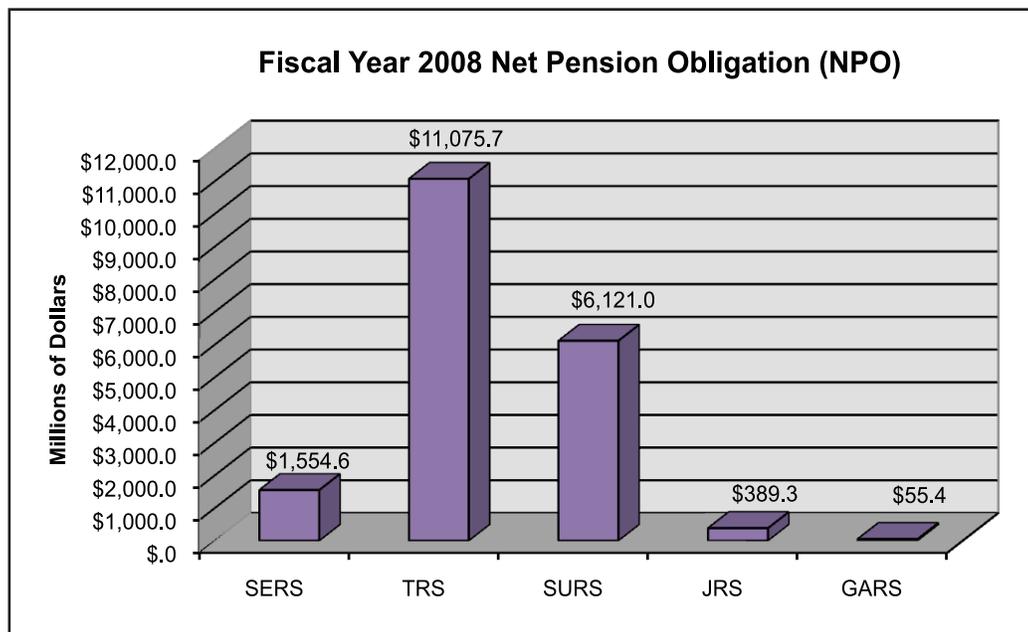


Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal contributions. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General

Assembly’s appropriation process. In addition, contributions to the Teachers’ Health Insurance Security Fund can reduce required contributions to 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.

provides for a 15-year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15-year phase-in period is complete, the state’s contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved. However, Public Act 94-0004 decreased the required funding levels for fiscal years 2006 and 2007 to \$938.4 million and \$1,374.7 million, respectively, and requires equal annual increments from fiscal year 2008 to 2010 to ensure that the fiscal year 2006 and 2007 decreases have no long-term effect on contributions.

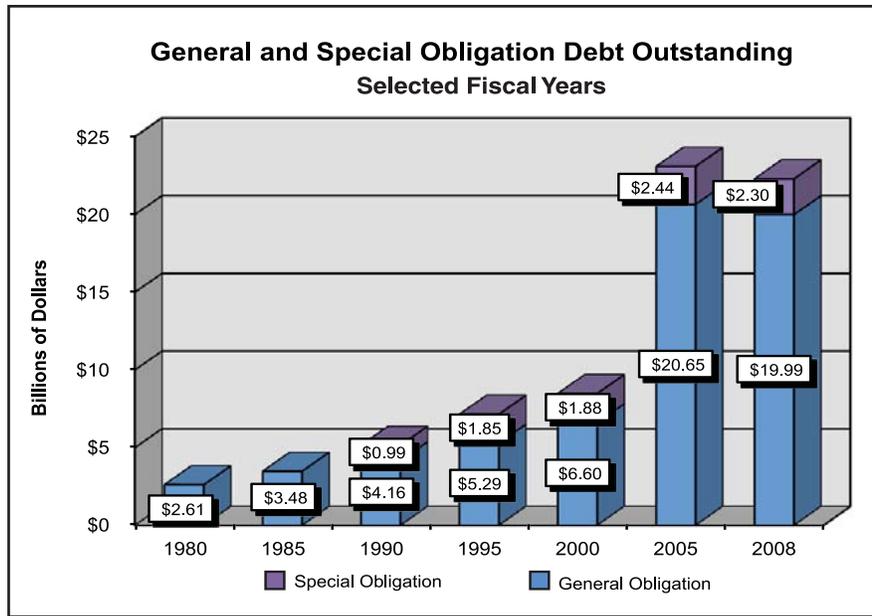
Assembly’s appropriation process. In addition, contributions to the Teachers’ Health Insurance Security Fund can reduce required contributions to Teachers’ Retirement System for school districts. This statutory funding requirement differs significantly from the annual pension cost (APC) because the statutory 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.



Bonds/Debt

General and Special Obligation Bonds

General and special obligation bonds, excluding refunding bonds, aggregating \$125 million and \$50 million, respectively, were issued during fiscal year 2008 at average interest rates ranging from 4.0% to 5.0%. The increase in outstanding general and special obligation bonds since 1980 is shown to the right. The large increase between fiscal years 2000 and 2005 is due to the issuance of \$10 billion in general obligation bonds in 2003 to reduce the state's net pension obligation.



Debt Administration

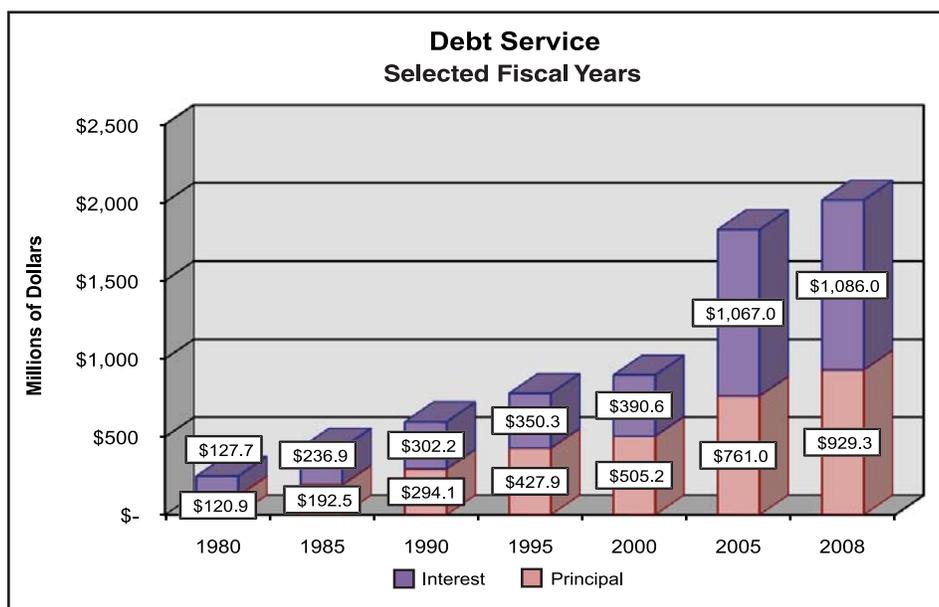
At June 30, 2008, the state's general obligation bond ratings were as follows: Moody's Investors Service-"Aa3", Standard & Poor's Corporation (S & P)-"AA", and Fitch Ratings-"AA". Special obligation bond ratings for Build Illinois Bonds were the same as general obligation bond ratings for Moody's Investors Service and Fitch Ratings while S & P rated special obligation Build Illinois bonds as "AAA" and Moody's Investors Service rated special obligation Civic Center bonds as "A1".

Debt Service

Debt service principal and interest costs of \$929.3 million and \$1.1 billion, respectively, were paid in fiscal year 2008 for general and special obligation bonds. The dramatic increase in debt service since fiscal year 1980, which parallels the increase in general and special obligation bonds outstanding, is displayed in the chart below.

NET ASSETS

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



time, increases or decreases in net assets measure whether the state's financial position is improving or deteriorating. Illinois' net assets were (\$19.9) billion at June 30, 2008. This represents a \$3.6 billion decrease compared to the (\$16.3) billion in the previous fiscal year. The state has \$13.7 billion of net assets invested in capital assets (net of related debt), \$5.5 billion of restricted net assets, and (\$39.1) billion of unrestricted net assets.

Governmental Activity Revenues

GOVERNMENTAL FUND REVENUES

The governmental activities of the state are presented on the modified accrual basis of accounting for the following governmental fund types: the General (which includes the general revenue account, education assistance account, common school account, and three medical services accounts); special revenue; capital projects; debt service; and permanent.*

Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues from various sources for fiscal year 2008 for governmental funds are as follows.

Fiscal year 2008 governmental funds revenues increased by \$2.4 billion (5%) over fiscal year 2007 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 2008, increasing \$2.0 billion (7%), and comprised nearly 61% of total state revenues.

Income Taxes

Income tax revenues for fiscal year 2008 were \$13.5 billion which is a \$958 million (7%) increase from fiscal year 2007 income tax revenues of \$12.6 billion. The increase is generally the result of an increase in the economy.

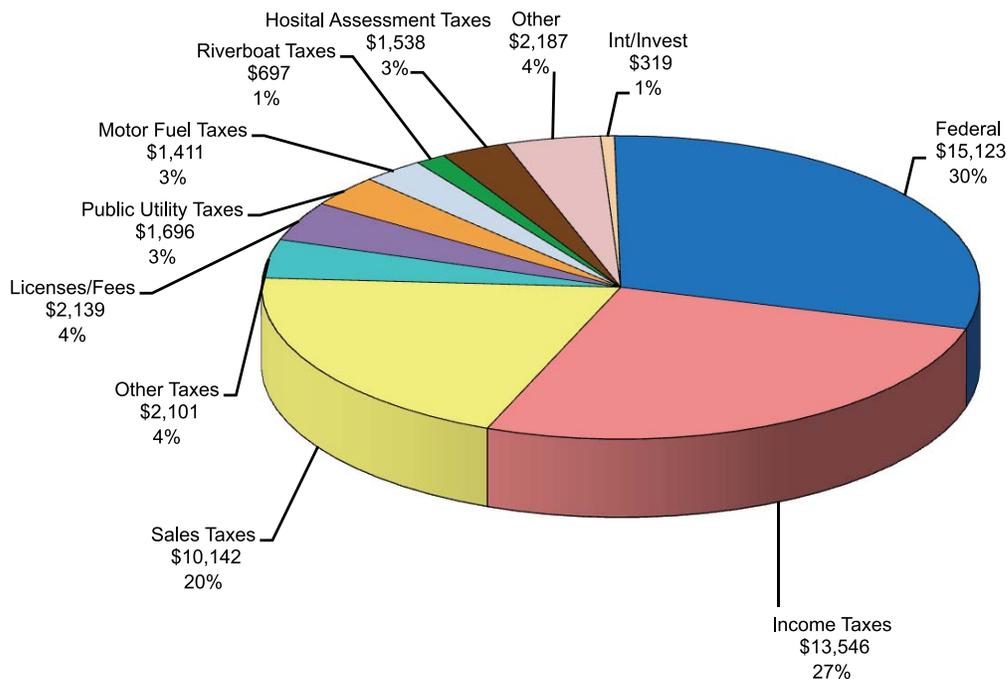
Sales Taxes

Sales taxes remained the second largest tax revenue source for fiscal year 2008 increasing \$277 million from fiscal year 2007.

Federal Government Revenues

Federal government revenues increased \$611 million (4%) from \$14.5 billion in fiscal year 2007 to \$15.1 billion in fiscal year 2008, and continued as the second largest overall revenue source behind taxes for the state's governmental funds.

Fiscal Year 2008 Governmental Fund Revenues
Millions of Dollars



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

Governmental Activity Expenditures

GOVERNMENTAL ACTIVITY EXPENDITURES

Expenditures for governmental activities are presented on the modified accrual basis of accounting and are generally recognized when the fund liability is incurred regardless of when payment is made except for long-term liabilities. Expenditures for long-term liabilities are recognized in the period in which the liability has matured. Governmental fund expenditures of \$51.5 billion in fiscal year 2008 increased \$723 million (1%) from 2007 and were \$557 million more than revenues on a GAAP basis.

Health and Social Services Expenditures

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

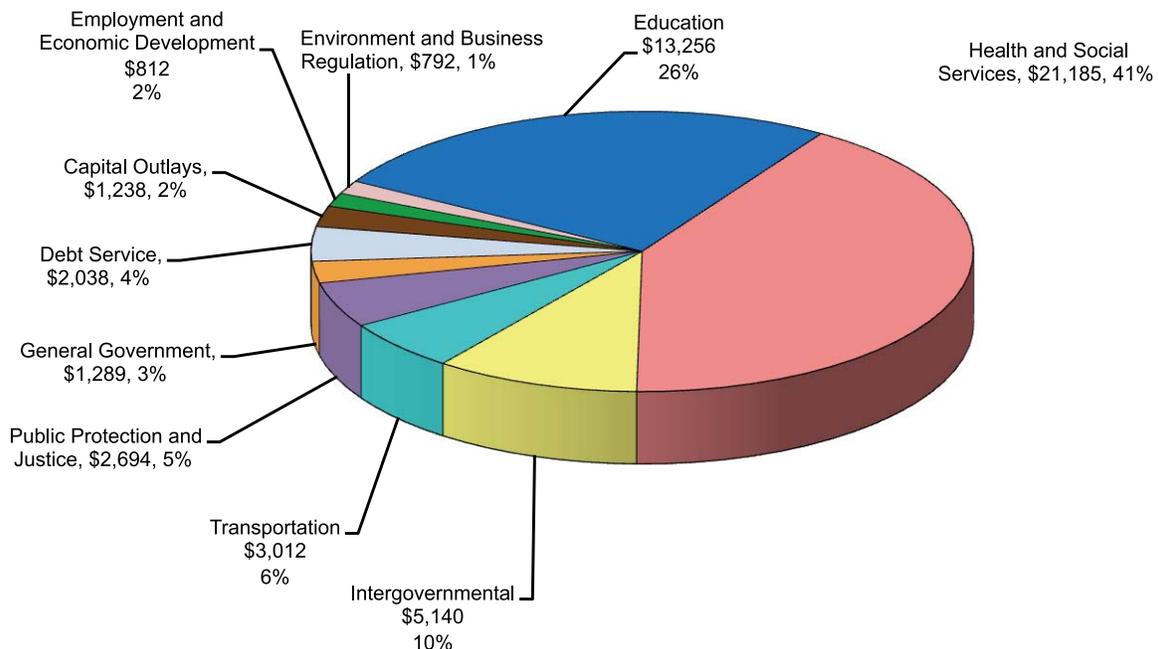
2008, decreasing by \$46 million from fiscal year 2007. This expenditure function is 41% of total governmental spending. The Department of Healthcare and Family Services accounted for the majority of the increase in governmental fund spending for the state's Medicaid Program.

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 2008. Education expenditures increased \$717 million (6%) from fiscal year 2007 on a GAAP basis and comprise 26% of total governmental expenditures.

GAAP BASIS

Fiscal Year 2008 Governmental Fund Expenditures
Millions of Dollars



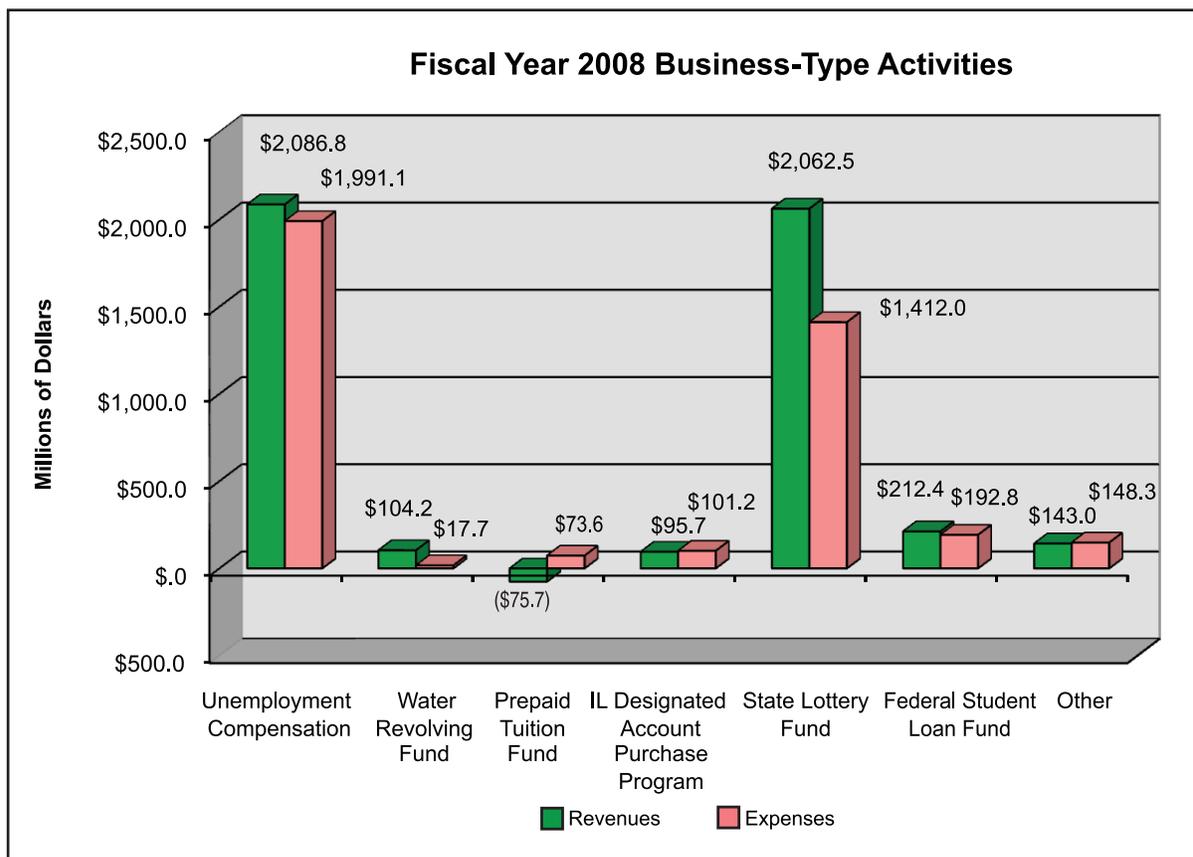
Business-Type Activities

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 large deficiency of expenses over revenues for the Prepaid Tuition Fund resulted from losses on long-term investments. The excess profits of the State Lottery Fund are transferred out to make school aid payments. ■



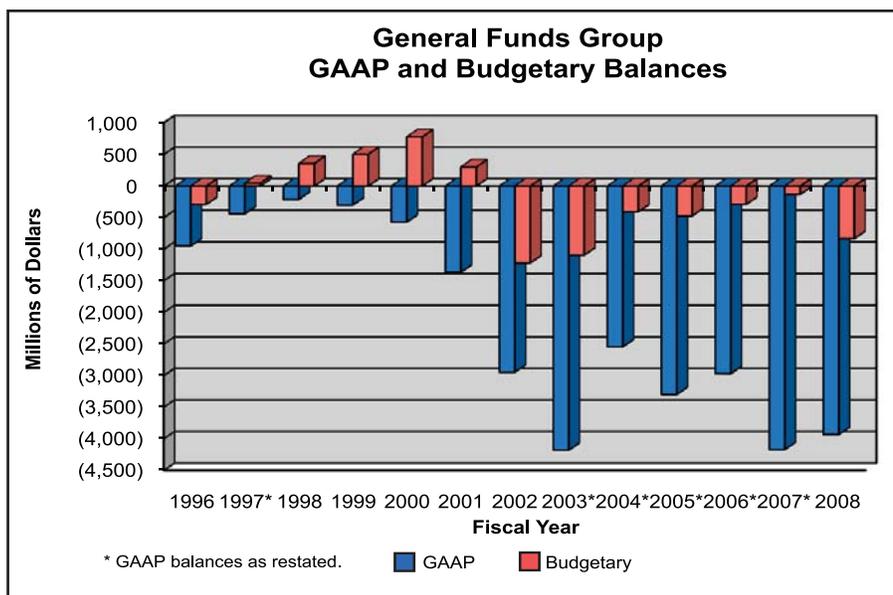
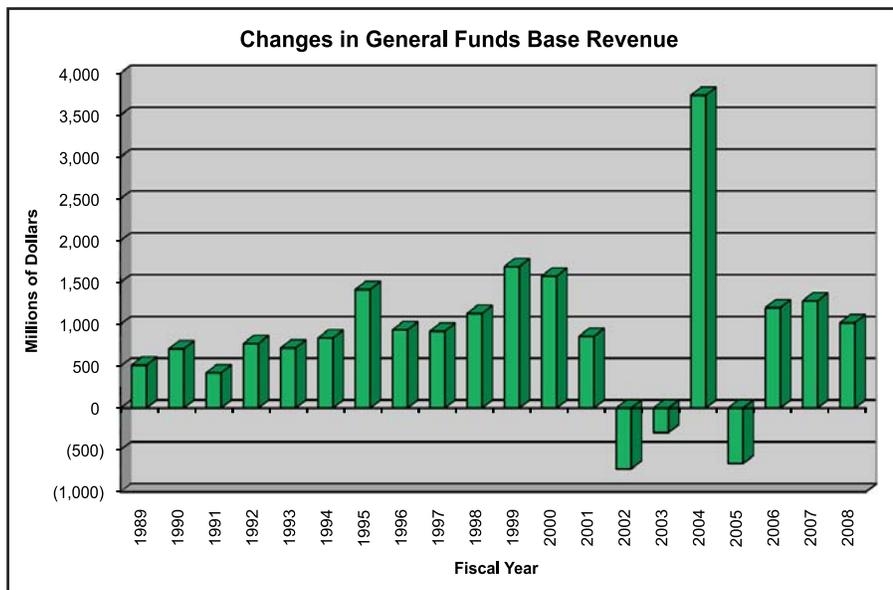
BUDGETARY BASIS

Fiscal Summary

For fiscal year 2008, General Funds base revenues increased \$1.019 billion. Revenues were impacted by the economy as the state's largest sources of revenue, income taxes once again showed significant growth. However, sales tax growth has slowed. Base expenditures grew \$1.885 billion for the year. Spending growth was due to increases in education funding, Medicaid expenditures and retirement expenditures.

Fiscal year 2008 resulted in a significant deterioration in the General Funds budgetary balance (measured on a cash basis). The balance decreased from a \$135 million deficit in fiscal year 2007 to an \$834 million deficit this year.

The state's General Funds GAAP balance increased from a restated \$4.171 billion deficit in fiscal year 2007, to a \$3.934 billion deficit in fiscal year 2008.



General Funds Base Revenue-Up 3.6% in Fiscal Year 2008

General Funds revenue grew \$3.566 billion or 11.8% in fiscal year 2008, increasing to \$33.838 billion from \$30.272 billion in fiscal year 2007. Excluding the transfer of \$276 million from the Budget Stabilization Fund, short-term borrowing of \$2.4 billion and \$1.503 billion in cash flow transfers; base revenues increased \$1.019 billion or 3.6%. The continued strength of income taxes and a decline in the percentage of income taxes allocated to the Income Tax Refund Fund resulted in a \$1.022 billion increase in income tax receipts. This increase was primarily responsible for the growth in base revenues this year.

State sources increased \$907 million or 3.8% as cash receipts grew \$1.253 billion and transfers in from other

cal year 2008. Over the year, employment in Illinois increased by 30,000 jobs and personal income grew 6.0%. In addition, the stock market had a very modest increase. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds increased \$110 million or 6.3%. Corporate income tax receipts were also impacted by a decrease in the percentage allocated to the Income Tax Refund Fund. Total corporate income taxes grew \$82 million or 3.8% as before tax corporate profits growth slowed over the year decreasing 3.2% in fiscal year 2008.

Retail sales for the year reflected the slowing of economic growth including auto sales as the processing of

General Funds Revenue (Millions of Dollars)												
	Fiscal Year										Change From FY2007 to FY2008	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Amount	Percent
Personal Income Tax	\$ 7,226	\$ 7,686	\$ 7,996	\$ 7,471	\$ 7,341	\$ 7,272	\$ 7,979	\$ 8,635	\$ 9,408	\$ 10,320	\$ 912	9.7 %
Corporate Income Tax	1,121	1,237	1,036	803	738	936	1,172	1,428	1,750	1,860	110	6.3
Sales Taxes	5,609	6,027	5,958	6,051	6,059	6,331	6,595	7,092	7,136	7,215	79	1.1
Gaming Sources:												
Lottery Fund	540	515	501	555	540	570	614	670	622	657	35	5.6
Riverboat Gaming	240	330	460	470	554	663	698	689	685	564	(121)	(17.7)
Miscellaneous	11	9	7	16	11	13	12	8	9	6	(3)	(33.3)
Total, Gaming	791	854	968	1,041	1,105	1,246	1,324	1,367	1,316	1,227	(89)	(6.8)
Public Utility Taxes	1,019	1,116	1,146	1,104	1,006	1,079	1,056	1,074	1,131	1,157	26	2.3
Other Tax Sources	1,779	1,924	2,230	2,207	2,007	2,225	2,430	2,295	2,261	2,387	126	5.6
Other Transfers In	411	514	452	444	890	2,545	1,347	743	935	678	(257)	(27.5)
Base State Sources	\$ 17,956	\$ 19,358	\$ 19,786	\$ 19,121	\$ 19,146	\$ 21,634	\$ 21,903	\$ 22,634	\$ 23,937	\$ 24,844	\$ 907	3.8 %
Federal Sources	3,718	3,892	4,320	4,258	3,940	5,189	4,257	4,725	4,703	4,815	112	2.4
Total Base Revenue	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,379	\$ 23,086	\$ 26,823	\$ 26,160	\$ 27,359	\$ 28,640	\$ 29,659	\$ 1,019	3.6 %
Transfer from Budget Stabilization Fund	0	0	0	226	226	226	276	276	276	276	0	0.0
Cash Flow Transfer	0	0	0	0	0	0	982	0	456	1,503	1,047	N/A
Short-Term Borrowing	0	0	0	0	1,675	0	765	1,000	900	2,400	1,500	166.7
Total Revenue	\$ 21,674	\$ 23,250	\$ 24,106	\$ 23,605	\$ 24,987	\$ 27,049	\$ 28,183	\$ 28,635	\$ 30,272	\$ 33,838	\$ 3,566	11.8 %

funds decreased by \$346 million. Federal sources increased \$112 million or 2.4%.

With a continued strong performance, personal income taxes including deposits into the Refund Fund increased \$762 million or 7.3%. With the reduction in the percent of taxes allocated to the Refund Fund, personal income taxes net of refunds grew \$912 million or 9.7% for fis-

sales tax vehicle transaction forms declined approximately 3.2%. As a result, revenues from the state sales tax totaled \$7.215 billion, an increase of only \$79 million or 1.1%. Also, a misallocation of receipts and the adjustment in fiscal year 2007 impacted this total. Excluding the negative impact of the adjustment, sales tax receipts this year most likely would have declined.

General Funds Revenue *concluded*

Gaming revenues declined \$89 million or 6.8% to \$1.227 billion for the year. Riverboat gaming revenues accounted for the decrease (down \$121 million) while Lottery transfers increased by \$35 million. The riverboat gambling hold harmless provision ended in fiscal year 2007.

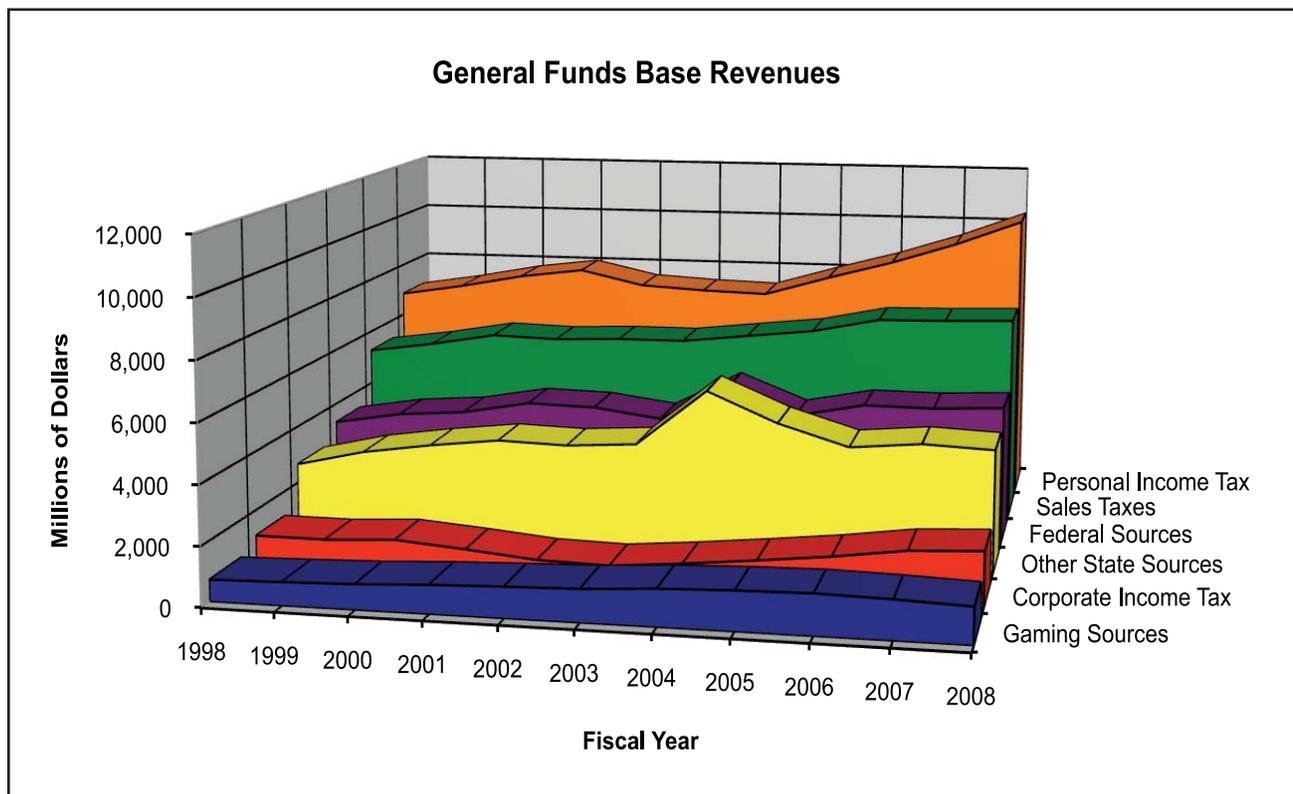
For fiscal year 2008, public utility taxes increased 2.3% with telecommunications tax revenues \$7 million higher, while revenues from the natural gas tax increased \$8 million and electric tax receipts up \$11 million. Gas and electric are consumption-based taxes and grow with increased usage.

Receipts from other tax sources were up \$126 million or 5.6% for the year. Inheritance tax receipts increased \$109 million. Corporate franchise tax and fees increased \$32 million, primarily from an amnesty program this year.

The \$257 million decrease for other transfers in was due to the fact that chargeback authority expired this year (down \$98 million) and there was no legislation authorizing fund sweeps (down \$188 million). Also transfers from the Income Tax Refund Fund decreased \$94 million although \$44 million was reflected in the aforementioned fund sweeps.

Federal sources increased \$112 million or 2.4% in fiscal year 2008. This increase was due to the growth in reimbursable medical assistance spending.

For fiscal year 2008, income and sales taxes brought in 65.4% of total General Funds base revenues, while federal sources and other sources accounted for 16.2% and 18.4%, respectively. This affirms the economy as the major factor in determining General Funds revenue growth.



General Funds Base Spending-Up 6.6% in Fiscal Year 2008

General Funds base expenditures for fiscal year 2008, which excludes a \$3.179 billion short-term borrowing repayment, totaled \$30.358 billion, an increase of \$1.885 billion or 6.6% from fiscal year 2007 spending. Base spending from the General Funds has increased by an average of \$981 million over the last nine fiscal years. Among the various categories of spending, operations increased by \$241 million, awards and grants increased \$1.423 billion, short term borrowing repayment increased \$1.536 billion and regular transfers out increased \$228 million. All other spending decreased \$7 million from the prior year.

For fiscal year 2008, General Funds awards and grants spending totaled \$20.208 billion, \$1.423 billion or 7.6% above fiscal year 2007. The Departments of Healthcare and Family Services (formerly the Department of Public Aid), Human Services and the State Board of Education accounted for 83.5% or \$16.869 billion of all

General Funds awards and grants in fiscal year 2008. Total grants accounted for 66.6% of total base spending from the General Funds for the fiscal year, up from 66.0% last fiscal year, 65.1% in fiscal year 2006 and 61.8% in fiscal year 2005.

The largest spending grant agency in fiscal year 2008 and for six of the last ten fiscal years was the State Board of Education. State Board of Education grant spending of \$6.954 billion from the General Funds in fiscal year 2008 is \$529 million or 8.2% higher than the previous year and accounted for 34.4% of total grant expenditures. General state aid to school districts accounts for the largest portion (63.6%) of State Board grant spending with \$4.424 billion expended in 2008. Slightly more than 56.1% (\$297 million) of the \$529 million increase in State Board grants spending was dedicated to general state aid with the remainder of the increase (\$232 million) for categorical and other programs.

	Fiscal Year										Change from FY 2007 to FY 2008	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Amount	Percent
Operations:												
Higher Education	\$ 1,478	\$ 1,574	\$ 1,662	\$ 1,765	\$ 1,660	\$ 1,545	\$ 1,432	\$ 1,401	\$ 1,407	\$ 1,368	(39)	(2.8) %
Healthcare and Family Services (Public Aid)	113	208	126	166	154	143	128	1,137	1,181	1,197	16	1.4
Corrections	1,019	1,095	1,168	1,222	1,149	1,154	1,187	1,156	1,104	1,197	93	8.4
Human Services	1,008	1,015	1,067	1,101	998	962	949	931	990	1,063	73	7.4
Children and Family Services	273	285	286	298	284	274	257	269	285	302	17	6.0
Central Management Services	560	645	698	733	818	1,026	977	92	102	79	(23)	(22.5)
Other Operations	1,276	1,476	1,623	1,671	1,403	1,330	1,373	1,413	1,627	1,731	104	6.4
Total, Operations	\$ 5,727	\$ 6,298	\$ 6,630	\$ 6,956	\$ 6,466	\$ 6,434	\$ 6,303	\$ 6,399	\$ 6,696	\$ 6,937	241	3.6 %
Awards and Grants:												
State Board of Education:												
Apportionment	\$ 2,922	\$ 2,983	\$ 2,995	\$ 3,232	\$ 3,142	\$ 3,446	\$ 3,682	\$ 3,896	\$ 4,127	\$ 4,424	297	7.2 %
Other	1,477	1,716	1,885	1,864	1,919	1,927	2,036	2,119	2,298	2,530	232	10.1
Total, State Board of Education	4,399	4,699	4,880	5,096	5,061	5,373	5,718	6,015	6,425	6,954	529	8.2
Healthcare and Family Services (Public Aid)	4,239	4,695	5,192	4,986	4,945	5,546	4,861	6,205	6,545	6,892	347	5.3
Human Services	2,392	2,420	2,660	2,566	2,504	2,631	2,797	2,884	2,893	3,023	130	4.5
Teachers Retirement	584	649	732	821	931	739	938	609	813	1,116	303	37.3
Higher Education	730	758	807	872	811	763	775	787	868	824	(44)	(5.1)
Children and Family Services	616	635	634	607	540	521	497	534	487	585	98	20.1
Aging	182	202	220	227	230	244	269	296	357	395	38	10.6
Other Awards and Grants	507	509	551	556	378	390	362	357	397	419	22	5.5
Total, Awards and Grants	\$ 13,649	\$ 14,567	\$ 15,676	\$ 15,731	\$ 15,400	\$ 16,207	\$ 16,217	\$ 17,687	\$ 18,785	\$ 20,208	1,423	7.6 %
Other General Funds Warrants Issued	45	82	60	53	28	-11	47	17	19	12	(7)	(36.8)
Total, General Funds Warrants Issued	\$ 19,421	\$ 20,947	\$ 22,366	\$ 22,740	\$ 21,894	\$ 22,630	\$ 22,567	\$ 24,103	\$ 25,500	\$ 27,157	1,657	6.5 %
Regular Transfers Out	2,106	2,029	2,217	2,159	2,031	2,519	3,657	3,059	2,973	3,201	228	7.7
Base General Funds Expenditures	\$ 21,527	\$ 22,976	\$ 24,583	\$ 24,899	\$ 23,925	\$ 25,149	\$ 26,224	\$ 27,162	\$ 28,473	\$ 30,358	1,885	6.6 %
Short-Term Borrowing Repayment	0	0	0	226	936	1,216	2,023	1,290	1,643	3,179	1,536	93.5
Total, General Funds Expenditures	\$ 21,527	\$ 22,976	\$ 24,583	\$ 25,125	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452	\$ 30,116	\$ 34,537	4,421	14.7 %

General Funds Base Spending *concluded*

The Department of Healthcare and Family Services had the second highest level of grant spending in fiscal year 2008 and the highest level in four of the last ten fiscal years. Healthcare and Family Services grant spending of \$6.892 billion in fiscal year 2008 is \$347 million or 5.3% higher than fiscal year 2007 and accounts for 34.1% of total General Funds grant spending. All of the Department's grant spending from the General Funds is for medical assistance.

In fiscal year 2008, the Department of Human Services had grant spending of \$3.023 billion, \$130 million or 4.5% above 2007. The agency was formed in 1997 as a consolidation of all or parts of six state social services agencies with the goal of achieving a more efficient and effective delivery of social services in Illinois and as a result delivers a large variety of services. Some of the larger programs include grants for mental health, developmentally disabled, child care and addiction treatment.

Two other sectors of government education spending garner a significant amount of General Funds grant dollars. Grant spending for teachers' retirement of \$1.116 billion in fiscal year 2008 represented an increase of \$303 million or 37.3% from the prior year. Higher education had awards and grants spending (primarily for student financial assistance) of \$824 million in fiscal year 2008, \$44 million or 5.1% lower than fiscal year 2007. Altogether, education grant spending from the General Funds in fiscal year 2008 totaled \$8.894 billion, up \$788 million or 9.7% from the previous year.

Spending for operations from the General Funds in fiscal year 2008 totaled \$6.937 billion, \$241 million or 3.6% higher than fiscal year 2007. Operations accounted for 22.9% of total General Funds base expenditures in 2008.

Higher education institutions accounted for the largest amount of spending for operations. In fiscal year 2008, higher education operations expenditures of \$1.368 billion were \$39 million or 2.8% lower than fiscal year

2007 and accounted for 19.7% of total operations. Illinois' flagship university, the University of Illinois, accounted for \$707 million or 51.7% of higher education operations in fiscal year 2008.

Prior to fiscal year 2006, group insurance contributions to pay for the health benefits of state employees had been paid out of the Department of Central Management Services budget. However, in fiscal year 2006, this responsibility was shifted to the Department of Healthcare and Family Services (HFS). As a result, HFS had operations spending of \$1.137 billion in fiscal year 2006, \$1.181 billion in fiscal year 2007 and \$1.197 billion in fiscal year 2008 resulting in that agency being tied with the Department of Corrections for the largest amount of operations expenditures. Of the \$1.197 billion in operations spending in fiscal year 2008, \$1.055 billion of that total was for group insurance. The \$1.055 billion expended for group insurance was \$11 million or 1.1% higher than the \$1.044 billion spent in the previous fiscal year.

Tied for first as the largest state agency in terms of operations expenditures from the General Funds and the second largest in terms of employee headcount is the Department of Corrections (DOC). Fiscal year 2008 expenditures by DOC for operations totaled \$1.197 billion, \$93 million or 8.4% higher than the previous year. The number of employees at DOC totaled 11,335 at the end of fiscal year 2008, down 639 or 5.3% from 11,974 at the end of fiscal year 2007.

With the largest headcount of any single state agency, the Department of Human Services recorded operations expenditures of \$1.063 billion in fiscal year 2008, up \$73 million or 7.4%. At the end of the fiscal year the department's employee headcount was 14,425, a decrease of 60 or 0.4% from the previous year.

Regular transfers out of \$3.201 billion in fiscal year 2008 increased by \$228 million or 7.7% from the previous year.

Fiscal Climate • Fiscal Year 2008

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

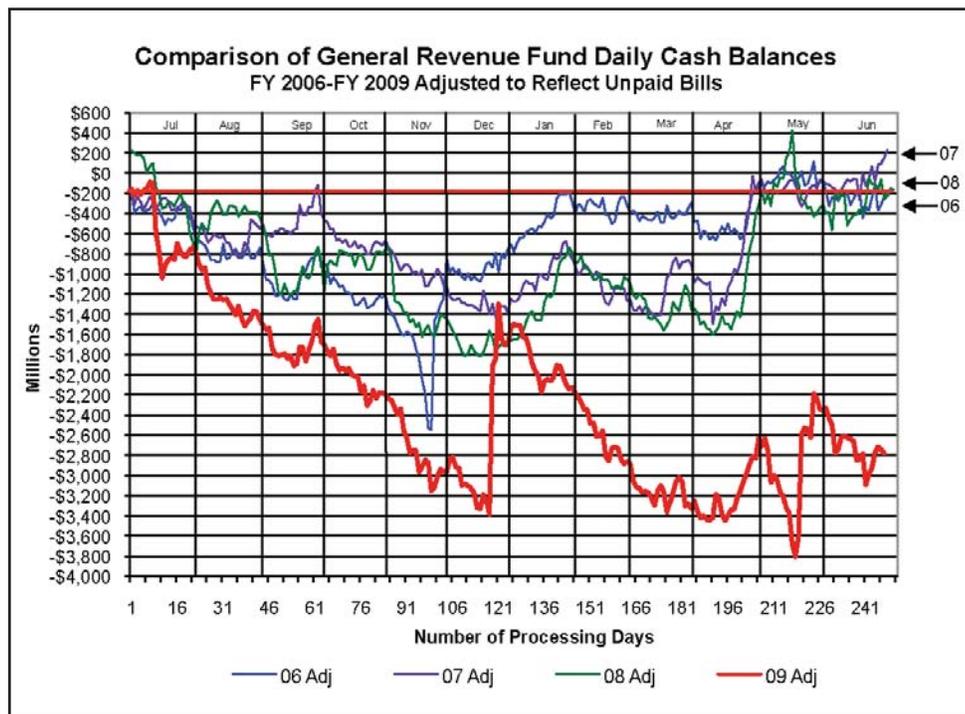
In July 2007, the Department of Healthcare and Family Services sent almost \$1.6 billion in Medicaid vouchers to the Comptroller's Office which had an immediate impact on the backlog of unpaid bills. By the end of the first quarter of the fiscal year, payables totaled \$1.393 billion. Payments delays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

Forecasts for economic growth were reduced and economy-driven revenues, primarily corporate income tax and sales tax receipts, continued to weaken. Also, past years' legislated transfers to the General Revenue Fund (GRF) were not repeated. As a result, by the end of the second quarter, the state's cash flow position continued to deteriorate. At the end of December, the backlog of unpaid bills stood at \$1.720 billion and the delay in paying bills was 34 business days both record levels for the mid-point of the year.

In January 2008, Public Act 95-707 was implemented which reduced the percentage of income taxes allocated to the Refund Fund and increased the amounts deposited into the General Funds. The increase in these revenues and a slowing in spending growth helped to reduce the backlog and delays only slightly. The act also increased the flexibility of the available funds in the Education Assistance Fund (one of the four General Funds) which reduced spending pressure on GRF.

For the last half of fiscal year 2008, income tax revenues remained strong aided by the change in the refund percentage. However, sales tax growth was very minimal. State cash receipts were partially offset by a decline in transfers from other funds, including the previously mentioned legislated transfers as well as drop in riverboat gambling transfers as a hold harmless provision expired that year.

Expenditures in the final two quarters of the year accelerated, primarily in the last three months. Medicaid spending increased significantly (over \$550 million) in the last quarter. By the end of the fiscal year, base spending growth had exceeded base revenue growth by \$564 million. The result was a deterioration of the state financial position. The state General Funds cash balance



BUDGETARY BASIS

Fiscal Climate *continued*

at the end of fiscal year 2008 had decreased by \$501 million and there was a backlog of unpaid bills \$208 million. Fiscal year 2008 ended with a budgetary balance for the General Funds of negative \$834 million, a decline of \$699 million from the prior year budgetary balance of negative \$135 million.

Section 25 of the State Finance Act provides the timeline for paying the state's liabilities and allows for the deferral of certain payments, primarily Medicaid, to the next fiscal year. A low rate of growth in Medicaid appropriations for fiscal year 2008 (up \$345 million) resulted in GRF Section 25 liabilities increasing. The GRF Section 25 liabilities at the end of fiscal year 2008 totaled \$2.148 billion compared to \$1.908 billion for fiscal year 2007.

A Look at Fiscal Year 2009

With lower balances (cash and budgetary), a backlog of unpaid bills and a weakening economy, it was apparent that the financial position of the state was significantly weaker at the start of fiscal year 2009. Appropriations from the General Funds were increased \$784 million or 2.8% adding to spending pressures for the year.

In July 2008, the Department of Healthcare and Family Services (as it did in July 2007) sent over \$1.6 billion in Medicaid vouchers to the Comptroller's Office which similarly had an immediate impact on the backlog of unpaid bills. By the end of the first quarter of the fiscal year, payables totaled \$1.823 billion, an increase of \$430 million over the prior year. Payments delays reached 42 days setting a record for this point in the fiscal year.

The economy impacted gambling revenues and investment income which declined in the first quarter. Federal sources decreased due to the backlog of Medicaid payments.

By the mid-point of the fiscal year, the state's cash position continued to deteriorate in spite of a short-term borrowing of \$1.4 billion in December. Both the backlog of unpaid bills (\$1.844 billion) and the days payments were delayed (48 days) were at record levels at the end of the first half of the fiscal year. Base spending through the second quarter was up 5.8% due to increases in education spending and retirement contributions.

Fiscal Year	General Funds				General Revenue Fund	
	GAAP Balance	Change	Budgetary Balance	Change	Budgetary Balance	Change
1991	(1,368)	(811)	(666)	(475)	(702)	(460)
1992	(1,656)	(288)	(887)	(221)	(828)	(126)
1993	(1,916)	(260)	(630)	257	(607)	221
1994	(1,595)	321	(422)	208	(447)	160
1995	(1,204)	391	(341)	81	(354)	93
1996	(952)	252	(292)	49	(299)	55
1997 *	(443)	509	45	337	106	405
1998	(213)	230	356	311	281	175
1999	(303)	(90)	503	147	184	(97)
2000	(572)	(269)	777	274	278	94
2001	(1,365)	(793)	300	(477)	(124)	(402)
2002	(2,948)	(1,583)	(1,220)	(1,520)	(1,470)	(1,346)
2003 *	(4,181)	(1,233)	(1,094)	126	(1,409)	61
2004 *	(2,546)	1,635	(410)	684	(569)	840
2005 *	(3,299)	(753)	(474)	(64)	(773)	(204)
2006 *	(2,970)	329	(291)	183	(802)	(29)
2007 *	(4,171)	(1,201)	(135)	156	(525)	277
2008	(3,934)	237	(834)	(699)	(917)	(392)

* GAAP balance as restated.

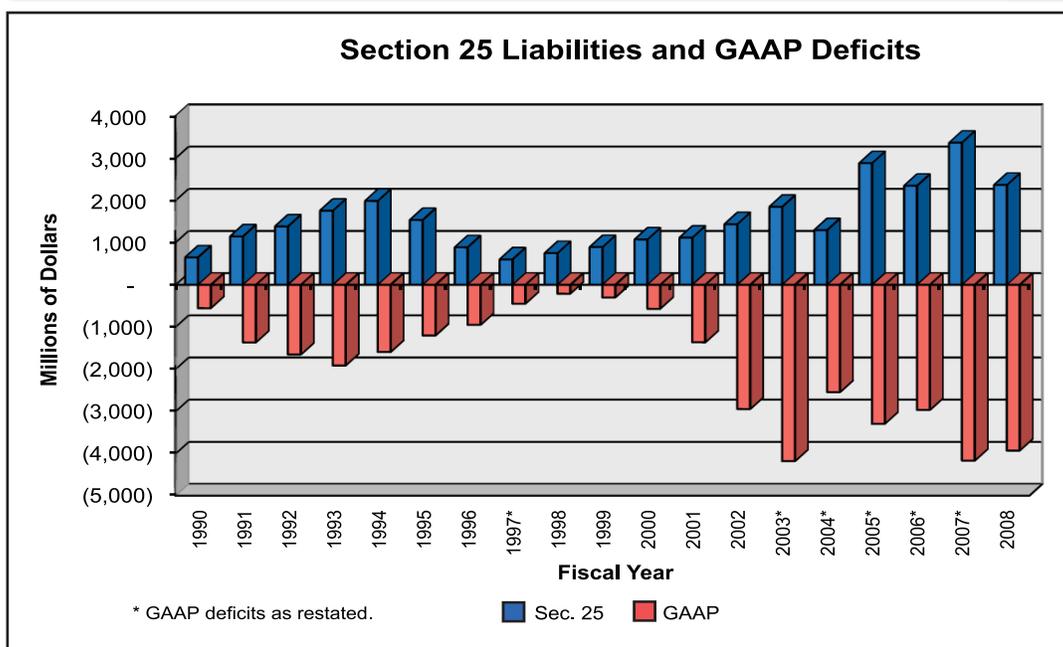
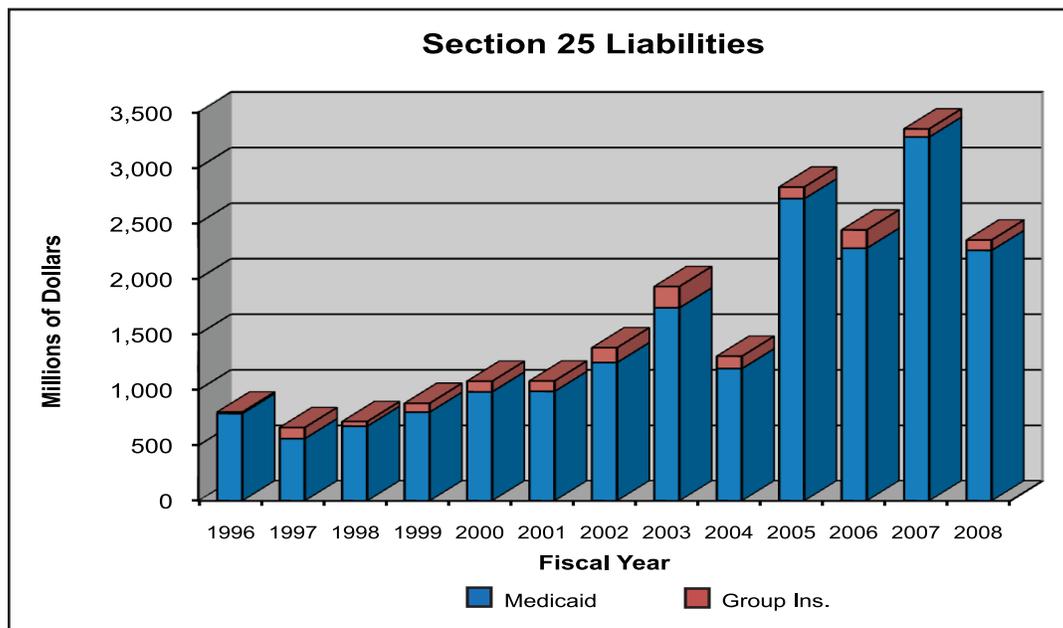
Fiscal Climate *concluded*

While base revenues decreased, it was the December decline in economic sources (corporate income taxes and sales taxes) that were a portent of the fiscal meltdown.

The recession that began in December 2007 became more severe and its impact on state revenues increased. Initial revenue growth projected for the fiscal year 2009 budget was supplanted by estimates of a revenue decline. With continued spending pressures and rapidly declining revenues, the cash flow position became untenable. Stimulus funding from the federal American Recovery and Reinvestment Act of 2009 and a revenue

failure short-term borrowing of \$1.0 billion in the spring alleviated only a portion of the current financial problems. Fiscal year 2009 ended with unpaid bills exceeding \$2.7 billion and a negative budgetary balance of over \$3 billion.

Even with the federal stimulus plan, it appears that the recession will continue into fiscal year 2010. Beginning the year with such a large negative balance and possibly declining revenues, some significant actions must be taken in fiscal year 2010 to keep the state solvent. ■



BUDGETARY BASIS