



JUDY BAAR TOPINKA
ILLINOIS STATE COMPTROLLER



EXECUTIVE SUMMARY

FISCAL YEAR ENDED JUNE 30, 2012



STATE OF ILLINOIS
COMPTROLLER
JUDY BAAR TOPINKA



May, 2013

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 2012 report notes that Illinois' cash position worsened as the budgetary deficit increased by \$477 million from a deficit of \$4.507 billion to a deficit of \$4.984 billion. The General Fund GAAP balance also worsened. The state ended fiscal year 2012 with a negative General Fund balance of \$9.133 billion, indicating that the state's GAAP deficit increased by \$1.123 billion compared to the prior year. Section 25 liabilities – essentially fiscal year 2012 medical bills paid for with fiscal year 2013 appropriations – increased this year, totaling \$3.628 billion as of June 30, 2012.

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

Sincerely,

Judy Baar Topinka
State Comptroller

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

State of Illinois

for the Fiscal Year Ended

June 30, 2011



Christopher P. Mouill
President

Jeffrey L. Esser
Executive Director

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Camel Rock at the Garden of the Gods in Shawnee National Forest, Southeastern Illinois



The Cloud Gate at Millennium Park, Chicago, 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 20 municipalities' populations estimated to be in excess of 50,000.

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

Responsibility for most of the day-to-day operations of state government and its programs resides in the executive branch, with the Governor overseeing the largest portion. Under the purview of the Governor there were twenty-one major departments in fiscal year 2012 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 64,328 persons at the end of fiscal year 2012, 3,818 less than one year earlier. The Departments of Human Services (12,236), Corrections (11,003), Transportation (5,778), and the Secretary of State (4,049) accounted for just over half (51.4%) of all direct government employees.

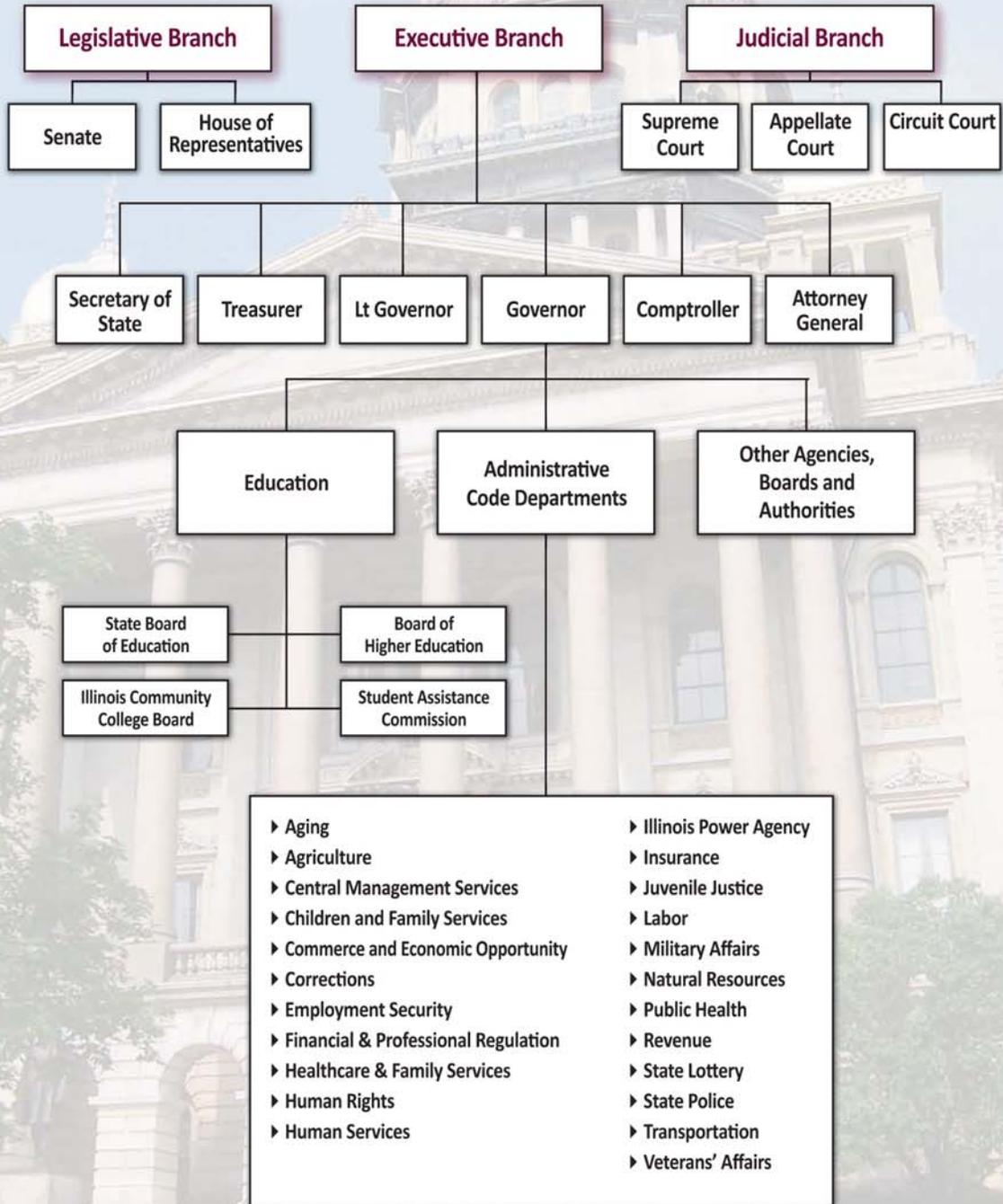
Oversight of the elementary and secondary education system in Illinois is the responsibility of the State Board of Education whose nine members are appointed by the Governor, with the consent of the Senate. The Board sets state educational policies and guidelines for schools, with local school boards administering educational services throughout 866 school districts and 3,881 schools. In fiscal year 2012, nearly 2.1 million public school children were instructed by over 128,000 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 2012 fiscal year, nearly 576,000 students were enrolled in Illinois' public colleges and universities, and about 306,000 were enrolled in independent institutions.

In addition to education, medical assistance and highway maintenance and construction are the largest state programs. The average monthly count of enrolled individuals for which the Department of Healthcare and Family Services provided means-tested medical coverage was approximately 2.7 million. The Department of Transportation administers the state's highway program through nine district offices and is responsible for more than 16,000 highway miles.

Total expenditures for governmental funds (on the modified accrual basis of accounting) for these major programs and all other operations of state government in fiscal year 2012 were \$62.2 billion or approximately \$4,800 for every person in Illinois. Total state revenues for the year on the modified accrual basis were \$58.7 billion for the governmental funds with income taxes (\$19.6 billion), federal revenues (\$18.2 billion), and sales taxes (\$9.8 billion) as the largest sources. The largest functions of spending in the governmental funds included Health and Social Services (\$25.6 billion), and Education (\$15.1 billion). ■

ELECTORATE



The recovery from the recession continued in Illinois in fiscal year 2012, albeit at a slow pace. The employment measures of Illinois economic activity showed signs of modest improvement during the fiscal year, while Illinoisans' personal income increases struggled to keep up with price inflation. Illinois' non-agricultural employment (derived from survey data from Illinois companies) averaged 5.710 million workers in fiscal year 2012, an increase of 66,000 jobs or 1.2% above 2011 employment, but still 335,000 jobs or 5.5% 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 5.970 million Illinoisans were employed in fiscal year 2012, up 28,000, or 0.5%, from the prior year employment level.

The average Illinois unemployment rate decreased from 9.7% in fiscal year 2011 to 9.4% in fiscal year 2012. The decreased unemployment rate was caused by the increase in employment levels and the decline in the average number of unemployed from 637 thousand in fiscal year 2011 to 619 thousand in fiscal year 2012. The average Illinois unemployment rate in fiscal year 2012 was still roughly double the 4.6% average rate for fiscal year 2007.

The manufacturing sector grew slightly in fiscal year 2012. Average manufacturing employment of 578,500 jobs was up 10,000 jobs from the prior year. Manufacturing employment was still down 328,100 jobs or 36.2% 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 decreased 0.5% in fiscal year 2012 as nominal personal income rose 2.4% following minimal employment growth and the consumer price index was up 2.9%. State personal income adjusted for inflation had increased 3.1% in fiscal year 2011 after two years of declines.

Fiscal Year 2013 and Beyond

The first half of fiscal year 2013 has seen a slow continuation of the recovery from the recession in Illinois. The average Illinois unemployment rate was 8.6% for the first half year of the fiscal year as employment as measured through the household survey was up 76,000 or 1.3% from its prior year level. The payroll employment data

continued to show improvement with employment edging up 68,000 or 1.2% from its prior year level. Economic growth is expected to continue at a moderate pace in the remainder of fiscal year 2013.

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 2012, 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.

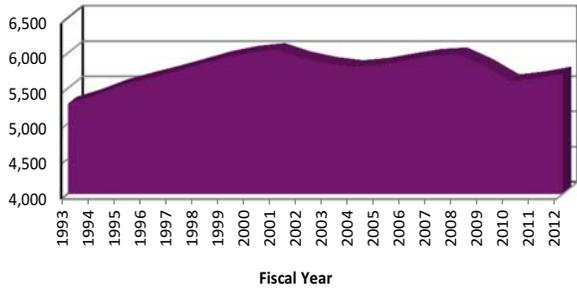
Chicago is the transportation crossroads of the United States. It is home to O'Hare Airport which was again ranked as one of the World's Busiest Airports in 2011 as well as being the hub for the national rail and highway networks. Through expanding private networks and the state initiatives such as the 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 2012, Illinois private institutions served 306,000 students with another 204,000 served by the public universities. A statewide system of community colleges (372,000 students) and other training resources provide many additional educational opportunities.

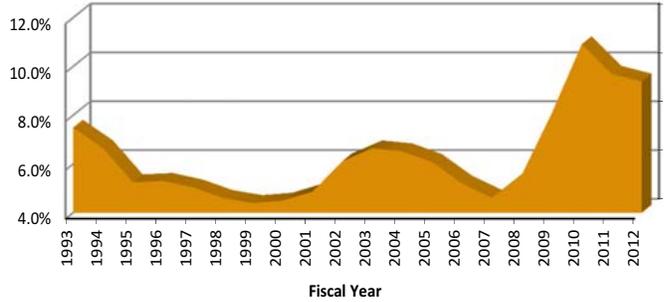
Associated with these education institutions are important scientific research centers, such as the Argonne National Laboratory, the Fermi National Accelerator Lab, and the National Center for Supercomputing Applications at the University of Illinois. In addition, Illinois based corporations operate 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

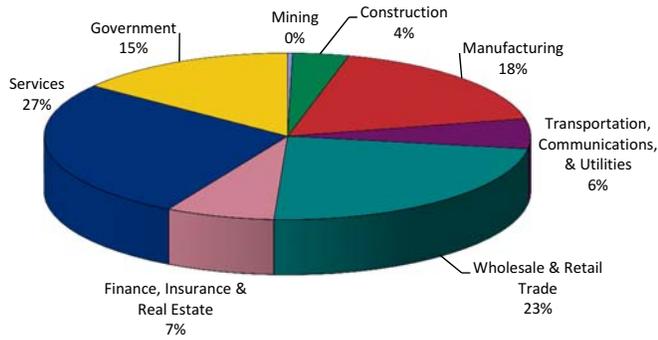
Illinois Non-Agricultural Employment



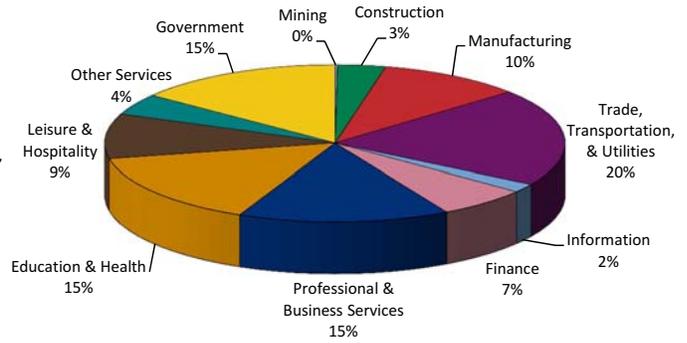
Illinois Unemployment Rate



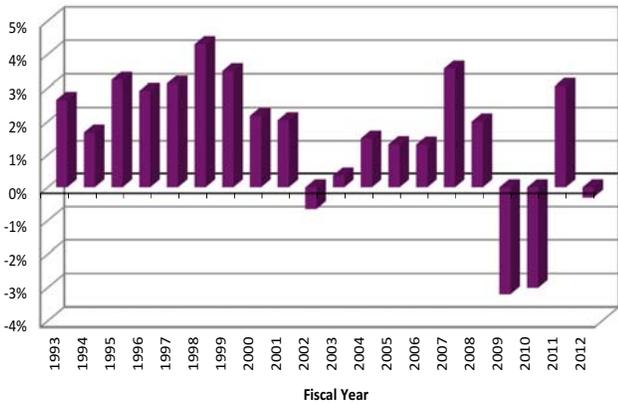
Illinois Employment by Industry Fiscal Year 1993



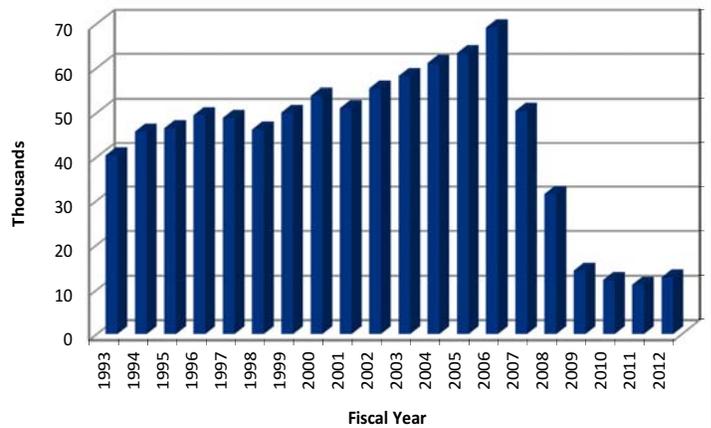
Illinois Employment by Industry Fiscal Year 2012



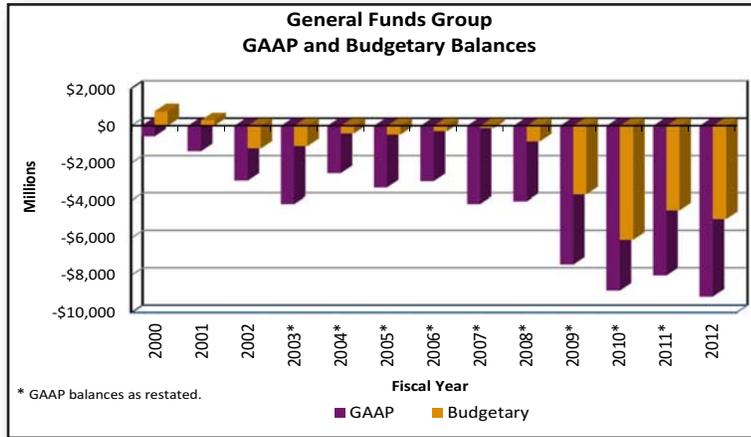
Change in Illinois Personal Income Adjusted for Inflation



Illinois Housing Permits



YEAR-END FISCAL SUMMARY



Taxes Receivable

(in millions)	6/30/11	6/30/12	Change
Gross Balance	\$3,021	\$3,395	\$374
Uncollectibles	\$945	\$1,047	\$102

**Fiscal Activity
General Funds**

(in millions)	FY 2011	FY 2012	Change
Beginning			
Balance	\$ 130	\$ 469	\$ 339
Revenues	\$ 33,797	\$ 34,072	\$ 275
Expenditures	\$ 33,458	\$ 34,501	\$ 1,043
Ending			
Balance	\$ 469	\$ 40	\$ (429)
Lapse Period			
Transactions	\$ 4,976	\$ 5,024	\$ 228
Budgetary			
Balance	\$ (4,507)	\$ (4,984)	\$ (477)

Major Unfunded and Long Term Liabilities

(in millions)	FY 2011	FY 2012
Net Pension Obligation	\$ 24,026	\$ 26,184
General Obligation Bonds	\$ 28,016	\$ 27,793
Build Illinois and Civic Center Bonds	\$ 2,314	\$ 2,852
Illinois Railsplitter Authority Bonds	\$ 1,503	\$ 1,444
Net Other Post-Employment Benefit Obligation	\$ 5,614	\$ 7,300

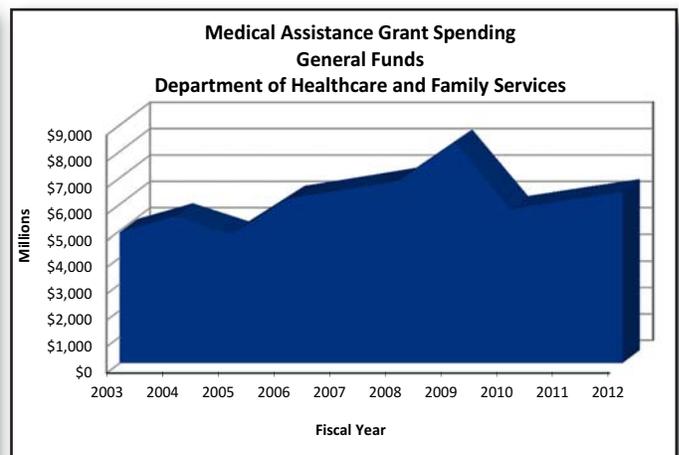
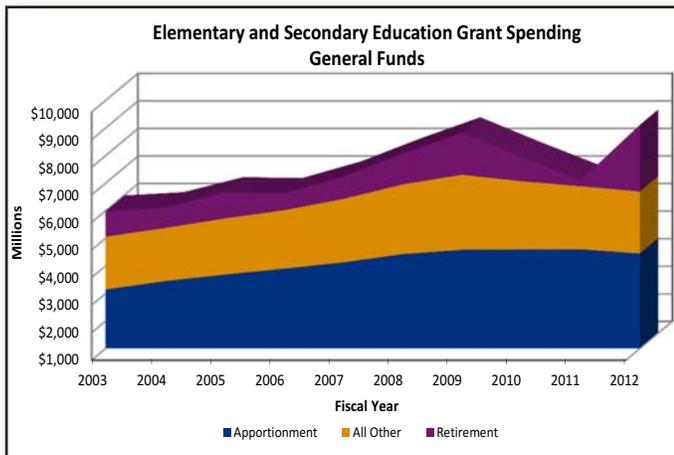
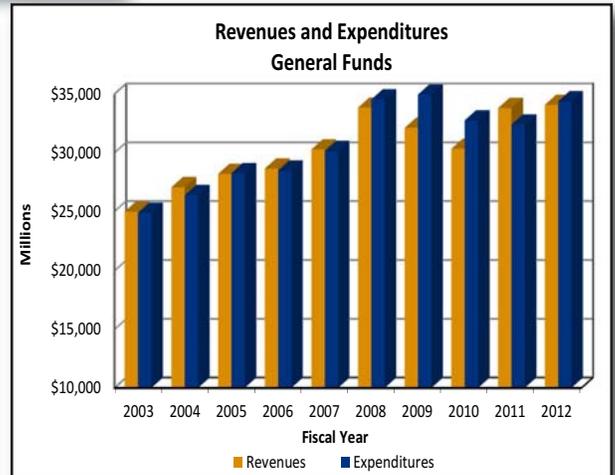
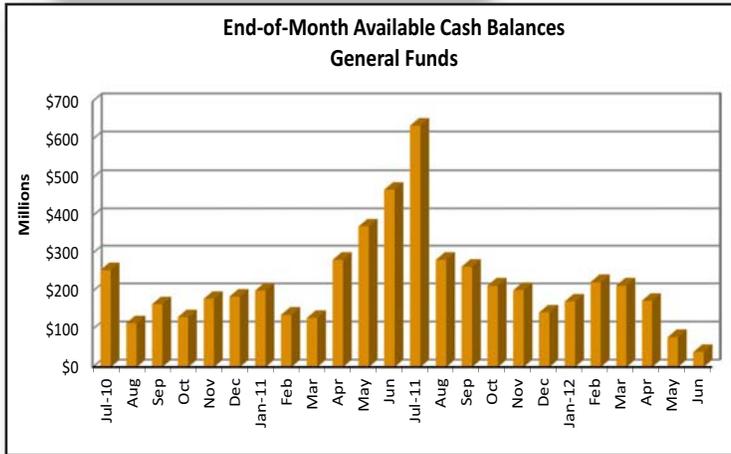
G.O. Bond Rating

Moody's	A2
S&P	A-
Fitch	A

(as of May 2013)

Section 25 Liabilities

(in millions)	6/30/11	6/30/12	Change
Liabilities	\$1,841	\$3,628	\$1,787



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, 2012, were approximately \$47.6 billion, an increase of \$3.9 billion from June 30, 2011. Capital assets, which include items such as land, buildings, equipment, and infrastructure, comprised approximately \$20.9 billion (43.9%) of the state's total assets.

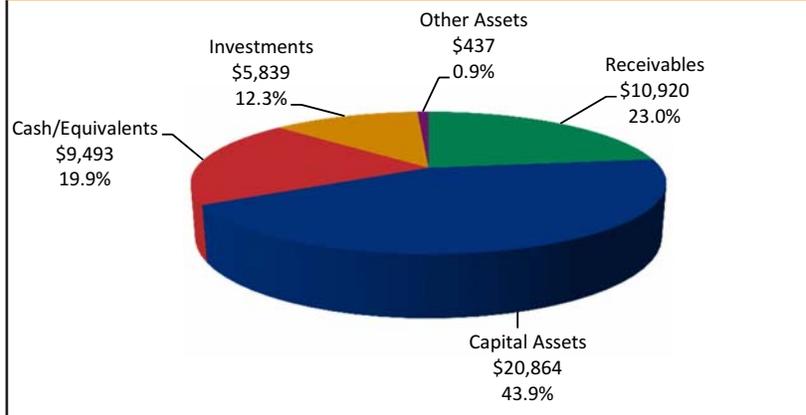
LIABILITIES

Total liabilities of the state were approximately \$92.3 billion at June 30, 2012, an increase of \$6.4 billion from June 30, 2011. The state's largest liability balances are the net pension obligation of \$26.2 billion (28.4%) and the general and special obligation debt liability of \$30.6 billion (33.2%).

Net Pension Obligation

The net pension obligation at June 30, 2012, for the state's five pension trust funds was \$26.2 billion, an increase of approximately \$2.2 billion from June 30, 2011. The net pension obligation is the

Total Assets (Primary Government) June 30, 2012 Dollar Amounts in Millions



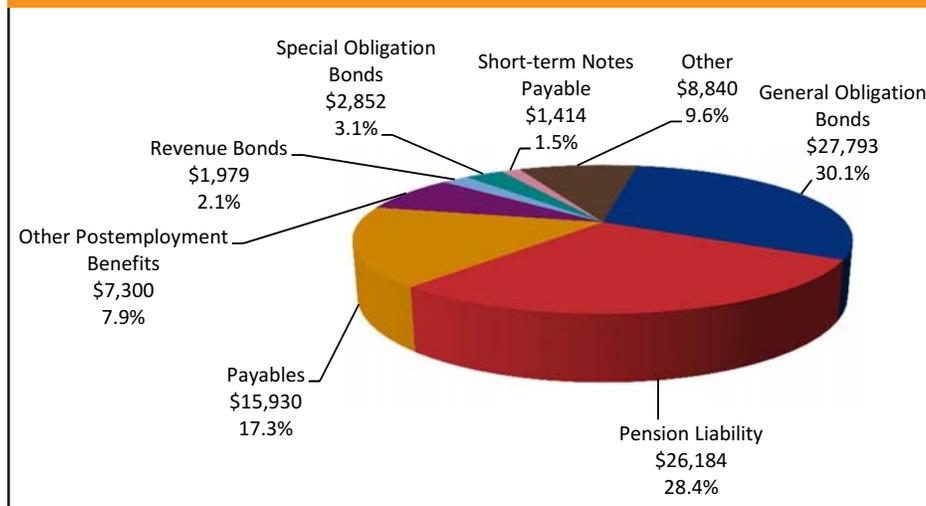
difference between the annual actuarially required contributions and the actual contributions made to the state's retirement systems. The net pension obligation and the annual pension cost compared to state contributions can be seen in the bar charts on page 7.

Funding Policy and Annual Pension Cost

Member contributions are based on fixed percentages set by statute ranging from 4.0% to 12.5%. The state's funding requirements have been established by statute (Public Act 88-593) effective July 1, 1995, and provide for a systematic 50-year funding plan with an ultimate goal to achieve "90% funding" of the systems' liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the state to adapt to the increased financial commitment.

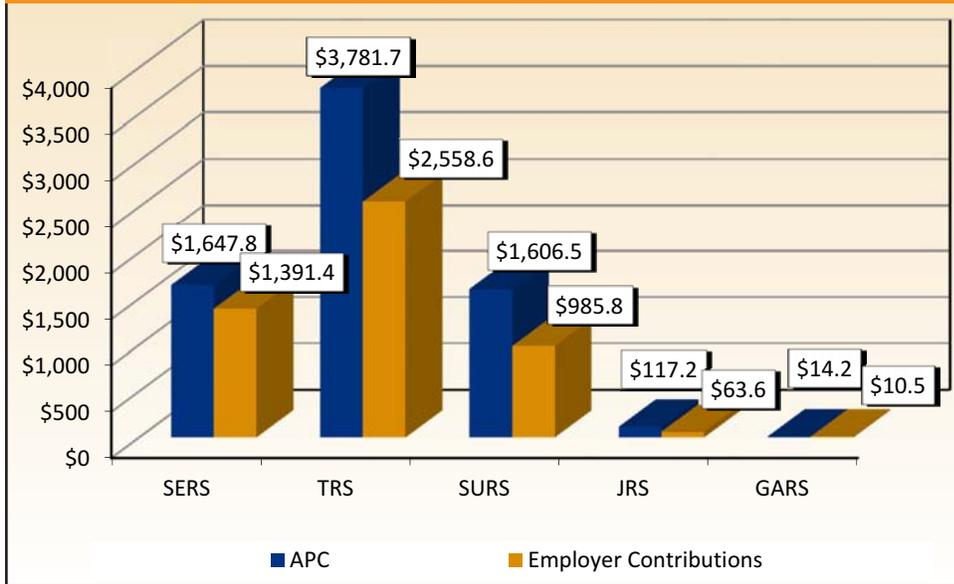
Since the 15-year phase-in period ended June 30, 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funding level is achieved, absent any subsequent legislative changes. However, Public Act 94-0004 decreased the required funding levels for fiscal years 2006 and 2007 to \$938.4 million and \$1.375 billion, respectively,

Total Liabilities (Primary Government) June 30, 2012 Dollar Amounts in Millions



LIABILITIES

**Annual Pension Costs (APC)
Fiscal Year 2012
Dollar Amounts in Millions**



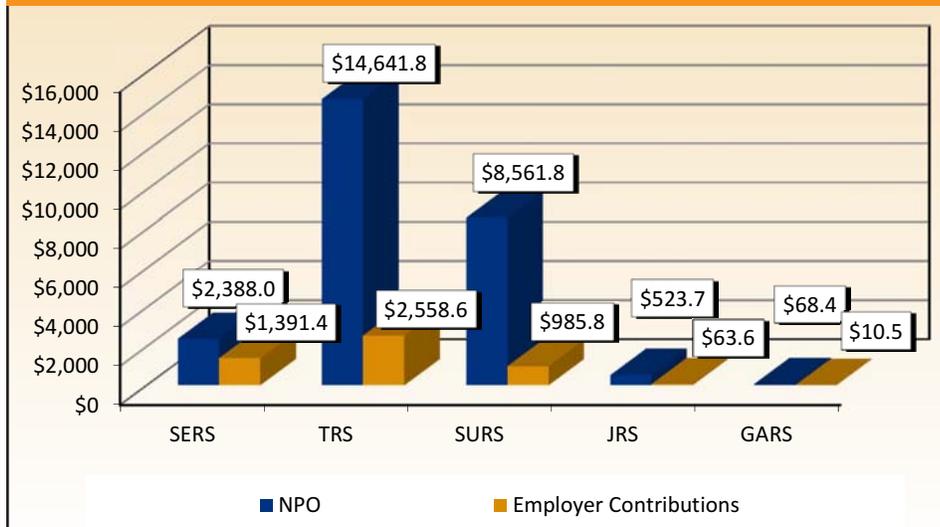
contributions. However, the State met its funding requirement established by statutory law for the fiscal year ended June 30, 2012. The current statutory law includes a “continuing appropriation” which means that the state must automatically provide funding to the pension systems based on actuarial cost requirements and amortization of the unfunded liability without being subject to the General Assembly’s appropriation process. In addition, contributions to the Teachers’ Health In-

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.

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

Actual contributions varied slightly from contributions required by statute mainly because of differences between estimated and actual federal

**Net Pension Obligation (NPO)
Fiscal Year 2012
Dollar Amounts in Millions**



BONDS/DEBT

General and Special Obligation Bonds

General obligation bonds, excluding refunding bonds, aggregating \$3.2 billion were issued during fiscal year 2012 at interest rates ranging from 0.75% to 5.75%. In addition, special obligation bonds, aggregating \$725 million, were issued during fiscal year 2012 at interest rates ranging from 0.44% to 5.00%. 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 year 2010 and 2011 that contributed to the increase in the debt outstanding.

Debt Administration

At June 30, 2012, the state's general obligation bond ratings were as follows: Moody's Investors Services—"A2 with a Stable Outlook," Standard & Poor's Corporation (S & P)—"A+ with a Negative Outlook," and Fitch Ratings—"A with a Stable Outlook." These ratings were downgraded from A1 with a Negative Outlook by Moody's Investor Services at June 30, 2011. In addition, since June 30, 2012 the Standard & Poor's rating has been downgraded to A- (Negative Outlook) and the Moody's and Fitch ratings outlooks were lowered to a Negative Outlook.

The State's special obligation – Build Illinois Bonds – ratings were A2 with a Stable Outlook from Moody's Investor Services, AAA with a Stable Outlook from Standard and Poor's, and AA+ with a Stable Outlook from Fitch Ratings as of June 30, 2012.

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



Debt Service

Debt service principal and interest costs of \$1.752 billion and \$1.493 billion, respectively, were paid in fiscal year 2012 for general and special obligation bonds. The dramatic increase in debt service since fiscal year 1980, which parallels the increase in general and special obligation bonds outstanding, and most recently the sale of bonds for pension contributions, is displayed in the chart below.

Debt Service Selected Years
Dollar Amounts in Millions



GOVERNMENTAL ACTIVITY REVENUES

NET ASSETS

Net assets are reported as the difference in the state's non-fiduciary assets and liabilities. When examined over time, increases or decreases in net assets measure whether the state's financial position is improving or deteriorating. Illinois' net assets were -\$44.7 billion at June 30, 2012. This represents a \$2.3 billion decrease compared to the -\$42.4 billion in the previous fiscal year. The state has \$15.0 billion of net assets invested in capital assets (net of related debt), \$5.8 billion of restricted net assets, and -\$65.6 billion of unrestricted net assets.

GOVERNMENTAL FUND REVENUES

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

Revenues on the modified accrual basis are recognized when they are both measurable and available to finance current operations. Revenues from various sources for fiscal year 2012 for governmental funds are as follows.

Fiscal year 2012 governmental funds revenues increased by \$3.6 billion (6.5%) from fiscal year 2011 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 2012, comprising nearly 61.0% of total governmental fund revenues, and increased \$5.6 billion (18.8%). Federal government revenues comprise 31% of total governmental fund revenues.

Income Taxes

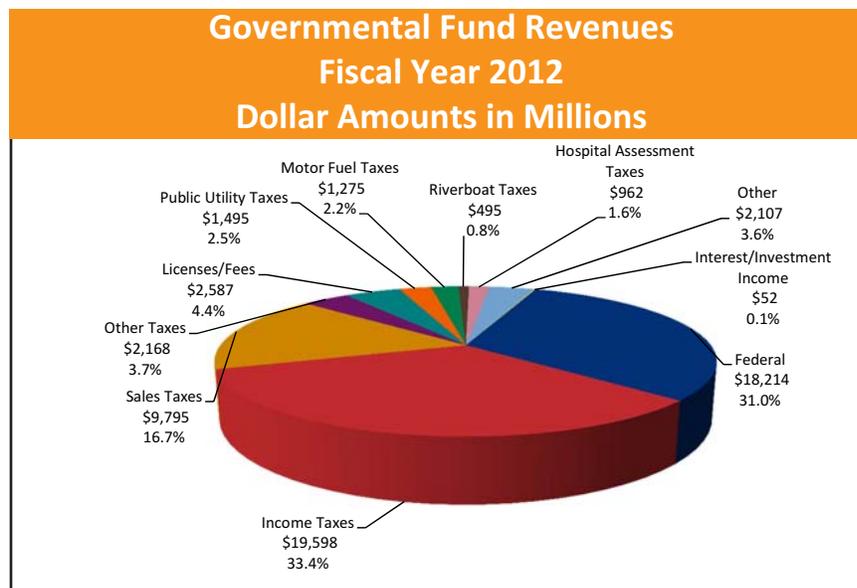
Income tax revenues for fiscal year 2012 were \$19.6 billion which is a \$5.2 billion (36.0%) increase from fiscal year 2011 income tax revenues of \$14.4 billion.

Sales Taxes

Sales taxes of \$9.8 billion remained the second largest tax revenue source for fiscal year 2012. Sales taxes increased \$168 million (1.7%) from fiscal year 2011.

Federal Government Revenues

Federal government revenues decreased \$2.2 billion (10.7%) from \$20.4 billion in fiscal year 2011 to \$18.2 billion in fiscal year 2012, 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 \$62.2 billion in fiscal year 2012 increased \$923 million (1.5%) from 2011 and were \$3.5 billion more than revenues on a GAAP basis.

Health and Social Services Expenditures

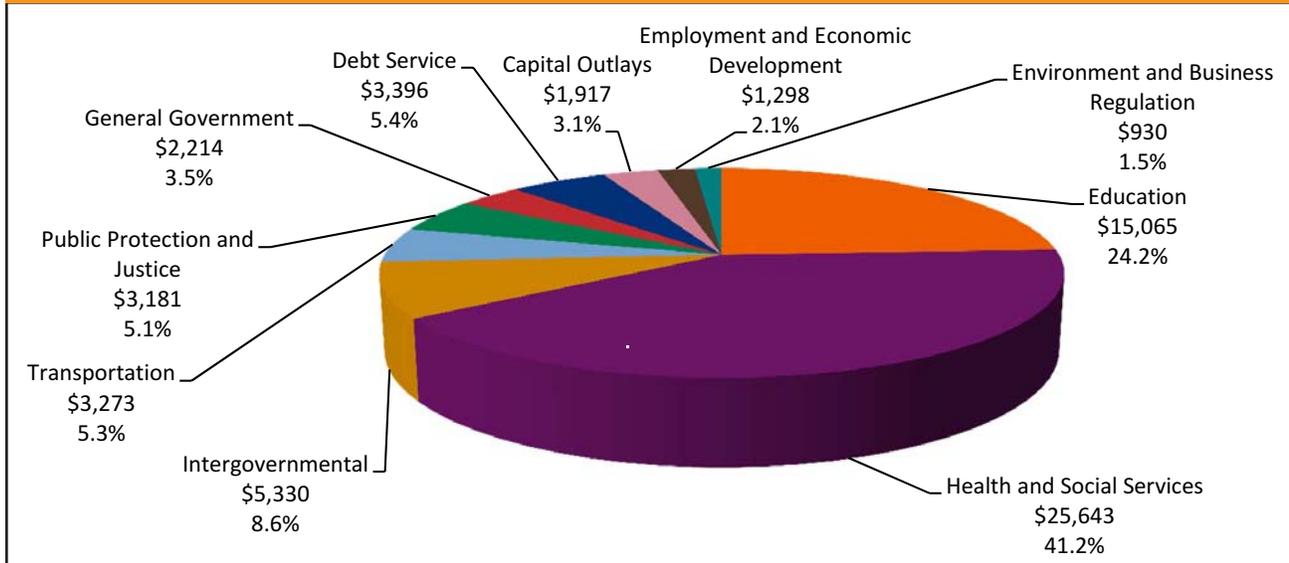
Health and social services expenditures of \$25.6 billion were the largest expenditure function for fiscal year 2012, increasing by \$1.072 billion from

fiscal year 2011. This expenditure function is 41.2% 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 2012. Education expenditures of \$15.1 billion decreased \$617 million (3.9%) from fiscal year 2011 on a GAAP basis and comprise 24.2% of total governmental expenditures.

**Governmental Fund Expenditures
Fiscal Year 2012
Dollar Amounts in Millions**



GAAP BASIS

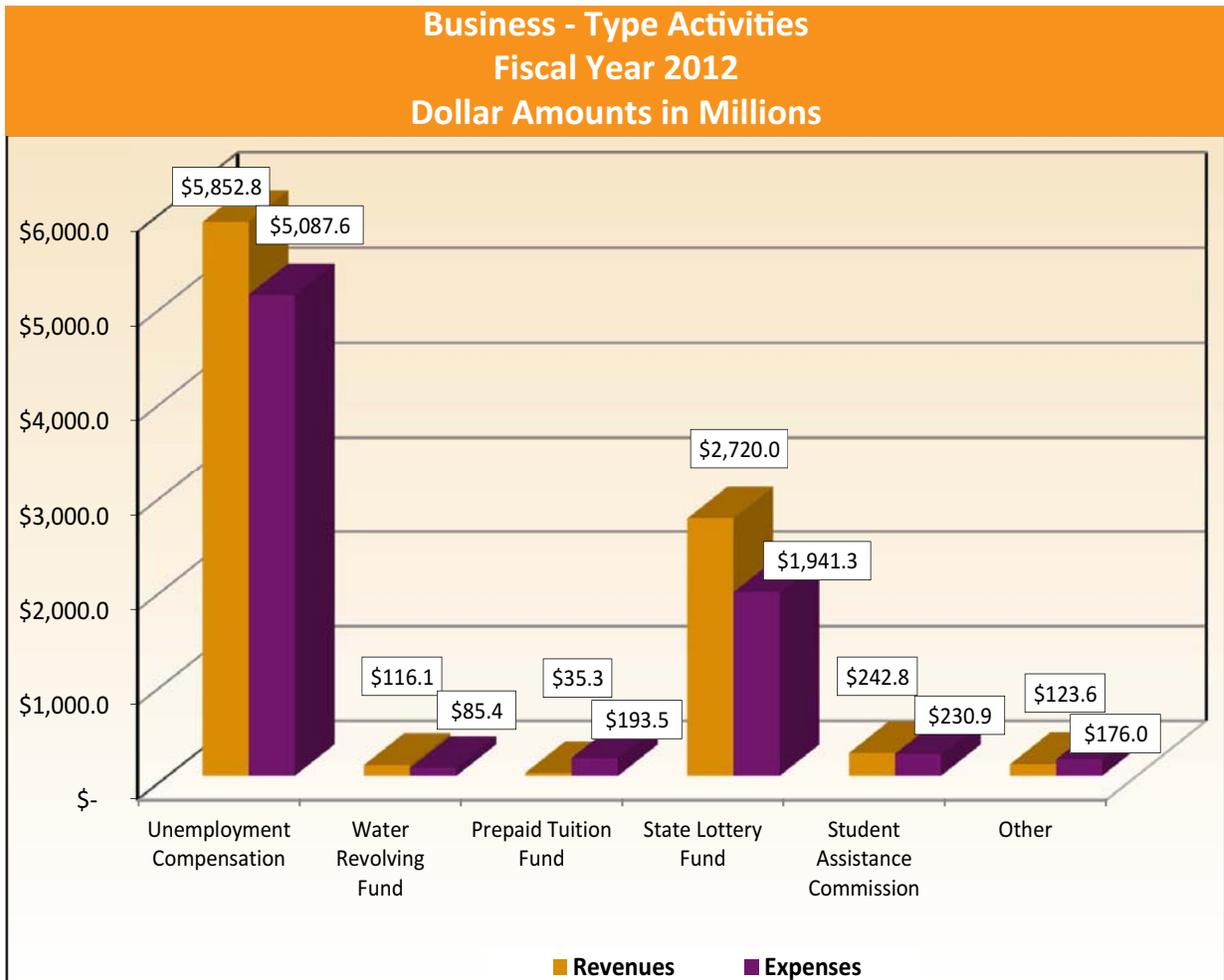
BUSINESS-TYPE ACTIVITIES

BUSINESS-TYPE ACTIVITY REVENUES AND EXPENSES

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

The state's main business-type activities are providing unemployment insurance benefit claims, 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 out to the Common School Fund and the Capital Projects Fund. ■



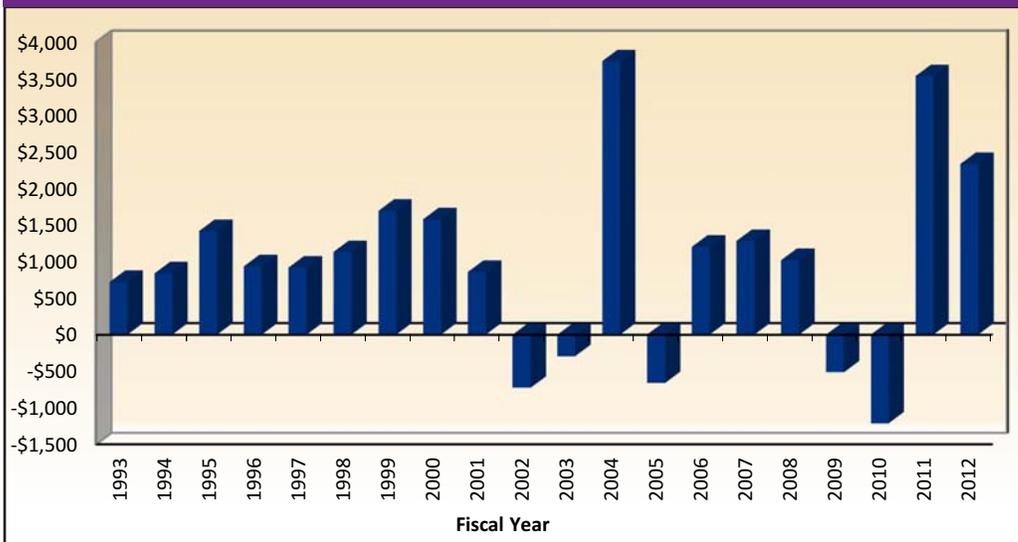
FISCAL SUMMARY

For fiscal year 2012, General Funds base revenues increased \$2.331 billion. Revenues were impacted primarily by the temporary increase in individual and corporate income tax rates. Base expenditures increased \$2.951 billion for the year. Spending growth was due to increases in retirement contributions spending as funding for the retirement systems was from current revenues and not bonds as in the prior year.

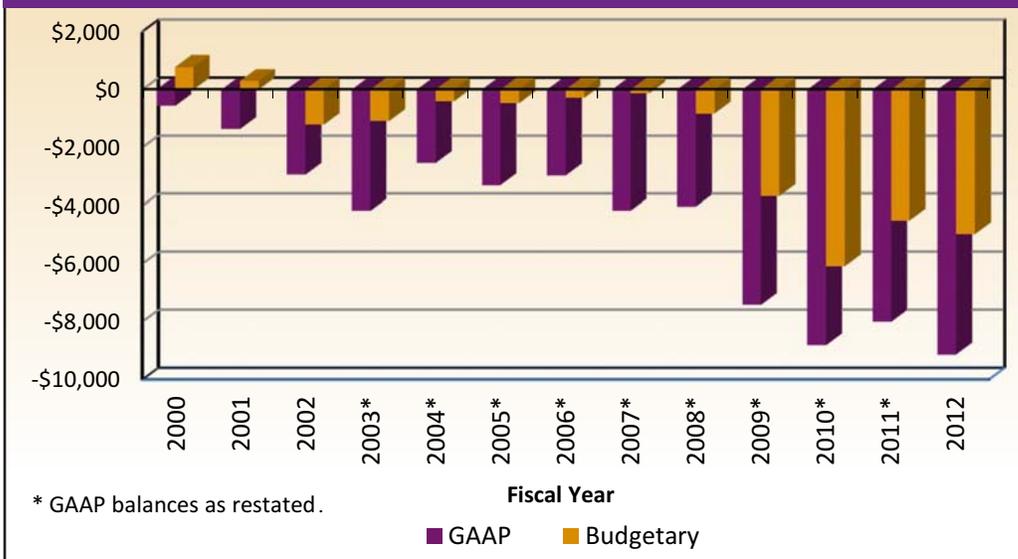
Fiscal year 2012 resulted in a decline in the General Funds budgetary balance (measured on a cash basis). The balance decreased from a \$4.507 billion deficit at the end of fiscal year 2011 to a \$4.984 billion deficit this year.

The state's General Funds GAAP balance decreased from an \$8.010 billion deficit in fiscal year 2011, to a \$9.133 billion deficit in fiscal year 2012.

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 \$275 million or 0.8% in fiscal year 2012, increasing to \$34.072 billion from \$33.797 billion in fiscal year 2011. Excluding the transfer of \$275 million from the Budget Stabilization Fund, base revenues increased \$2.331 billion or 7.4%. While the economy is improving, one factor had significantly impacted the growth in base revenues. Fiscal year 2012 was the first full year for the temporary increase in income tax rates with the individual tax rate going from 3.0% to 5.0% and the corporate tax rate increased from 4.8% to 7.0%. While state revenues increased, federal revenues declined in fiscal year 2012 (due to the end of the federal stimulus from the American Recovery and Reinvestment Act of 2009).

State sources increased \$4.035 billion or 15.5% as cash receipts grew \$5.330 billion and transfers in from other funds decreased by \$1.295 billion. Federal sources decreased \$1.704 billion or 31.6%.

Because of the tax rate increase for a full year, personal income taxes increased \$4.287 billion or

38.2%. Over the year, employment in Illinois increased by over 66,000 jobs and Illinois personal income was up 2.4%. While the stock market had increased for the year, it remained below the level of four years ago. Obviously, these economic factors had an impact on income tax receipts. Corporate income tax receipts deposited into the General Funds increased \$610 million, or 33.0%. The growth was from a whole year of the tax rate increase and the growth in before-tax corporate profits nationally of 8.7% in fiscal year 2012.

Retail sales for the year reflected the improving economy as the processing of sales tax vehicle transaction forms (auto sales) increased approximately 5.8%. As a result, revenues from the state sales tax totaled \$7.226 billion, an increase of \$393 million or 5.8%. Nationally, retail sales for the fiscal year were up 6.8%.

Transfers in from other funds decreased \$1.295 billion or 41.0% for the year totaling \$1.865 billion. Riverboat gambling transfers increased \$16 million while Lottery transfers into the Common School

General Funds Revenue (Millions of Dollars)												Change From FY2011 to FY2012	
	Fiscal Year										Amount	Percent	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012			
Personal Income Tax	\$ 7,341	\$ 7,272	\$ 7,979	\$ 8,635	\$ 9,408	\$ 10,320	\$ 9,223	\$ 8,511	\$ 11,225	\$ 15,512	\$ 4,287	38.2 %	
Corporate Income Tax	738	936	1,172	1,428	1,750	1,860	1,710	1,360	1,851	2,461	610	33.0	
Sales Taxes	6,059	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226	393	5.8	
Transfers In:													
Lottery Fund	540	570	614	670	622	657	625	625	632	640	8	1.3	
Riverboat Gaming*	553	528	542	685	685	564	430	383	324	340	16	4.9	
Other Transfers In	890	2,554	1,357	746	939	679	538	1,671	2,204	885	(1,319)	(59.8)	
Total, Transfers In	1,983	3,652	2,513	2,101	2,246	1,900	1,593	2,679	3,160	1,865	(1,295)	(41.0)	
Public Utility Taxes	1,006	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995	(152)	(13.3)	
Other Tax Sources	2,019	2,364	2,588	2,304	2,266	2,392	2,110	2,066	1,864	2,056	192	10.3	
Base State Sources	\$ 19,146	\$ 21,634	\$ 21,903	\$ 22,634	\$ 23,937	\$ 24,844	\$ 22,577	\$ 22,013	\$ 26,080	\$ 30,115	\$ 4,035	15.5 %	
Federal Sources	3,940	5,189	4,257	4,725	4,703	4,815	6,567	5,920	5,386	3,682	(1,704)	(31.6)	
Total Base Revenue	\$ 23,086	\$ 26,823	\$ 26,160	\$ 27,359	\$ 28,640	\$ 29,659	\$ 29,144	\$ 27,933	\$ 31,466	\$ 33,797	\$ 2,331	7.4 %	
Transfer from Budget													
Stabilization Fund	226	226	276	276	276	276	276	276	276	275	(1)	(0.4)	
Interfund Borrowing	0	0	0	0	0	0	0	0	496	0	(496)	(100.0)	
Cash Flow Transfer	0	0	982	0	456	1,503	300	870	259	0	(259)	(100.0)	
Short-Term Borrowing	1,675	0	765	1,000	900	2,400	2,400	1,250	1,300	0	(1,300)	(100.0)	
Total Revenue	\$ 24,987	\$ 27,049	\$ 28,183	\$ 28,635	\$ 30,272	\$ 33,838	\$ 32,120	\$ 30,329	\$ 33,797	\$ 34,072	\$ 275	0.8 %	

* Excludes riverboat gaming receipts.

GENERAL FUNDS BASE REVENUE *CONCLUDED*

Fund were up \$8 million. All other transfers were down \$1.319 billion due to the \$1.25 billion transfer from tobacco bond proceeds in the prior year.

For fiscal year 2012, public utility taxes decreased 13.3% with telecommunications tax revenues \$127 million lower, while revenues from the natural gas tax decreased \$14 million and electric tax receipts were down \$11 million. Gas and electric are consumption-based taxes and change with increases or decreases in usage.

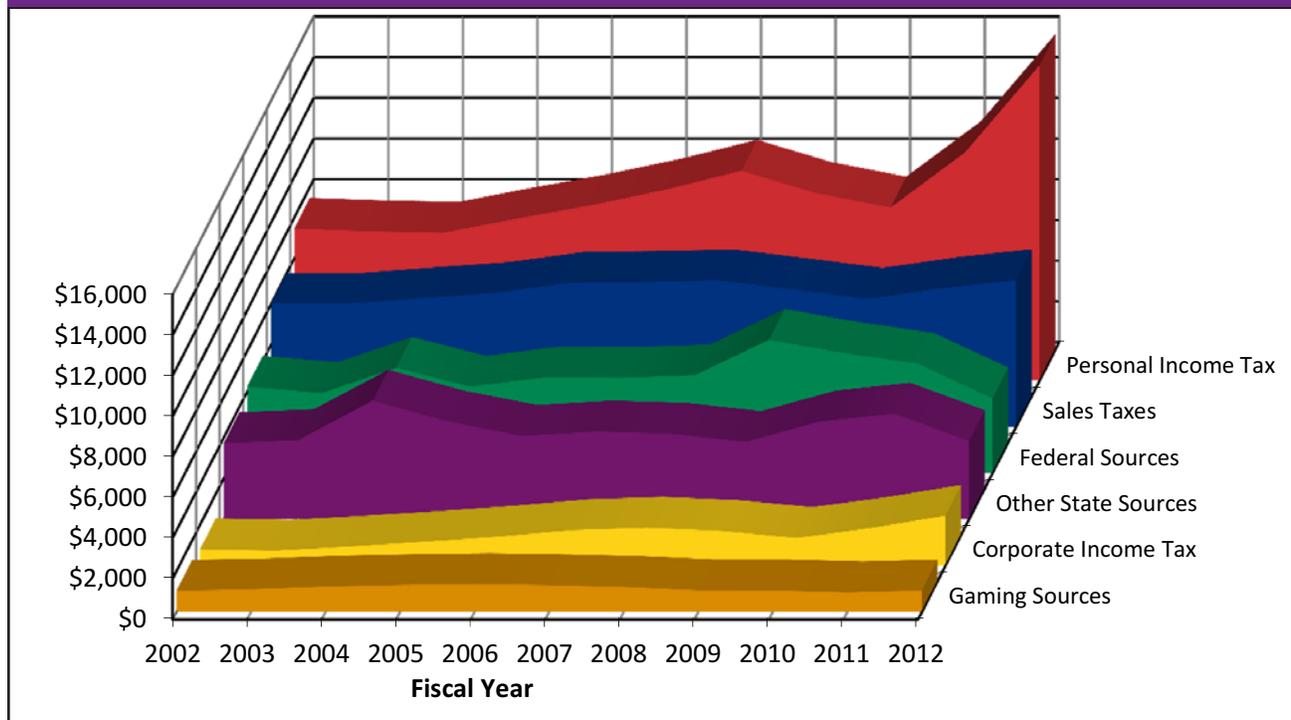
Receipts from other tax sources were up \$192 million or 10.3% for the year. Inheritance tax receipts increased \$113 million and \$73 million was from the final payment for the tenth riverboat license.

Federal sources decreased \$1.704 billion or 31.6% in fiscal year 2012 to a total of \$3.682 billion. Rev-

enues tied to the federal stimulus legislation decreased \$542 million and medical assistance reimbursements declined \$524 million due to a decrease in reimbursement rates and an acceleration of spending at the end of fiscal year 2011 to maximize reimbursements at the higher rate. In addition, federal TANF monies were deposited into a different fund.

For fiscal year 2012, income and sales taxes brought in 73.9% of total General Funds total revenues, while federal sources and other sources accounted for 10.8% and 15.3%, respectively. While the economy remains a major factor in determining General Funds revenue performance, the tax rate increase for a full year and the end of the federal stimulus program had a significant impact on the percentages.

General Funds Base Revenues
Dollar Amounts in Millions



GENERAL FUNDS BASE SPENDING

General Funds base expenditures for fiscal year 2012, which excludes borrowing repayments, totaled \$33.468 billion, an increase of \$2.951 billion or 9.7% from fiscal year 2011 spending. Of this total, the spending by state agencies increased by \$3.762 billion and regular transfers out decreased by \$811 million. Including the fiscal year 2012 increase, base spending from the General Funds has increased by an average of \$1.060 billion over the last nine fiscal years.

Looking at all cash expenditures, Illinois General Funds short-term borrowing repayment was down \$1.322 billion and cash flow transfers were down \$260 million. In addition, there was a \$274 million increase in repayment to the Budget Stabilization Fund and \$346 million in interfund borrowing repayment.

For fiscal year 2012, the State Board of Education, the Departments of Healthcare and Family Services (formerly the Department of Public Aid), Human Services, Corrections, and Higher Education spending accounted for \$22.366 billion or 76.6% of all agency spending.

The Department of Healthcare and Family Services (DHFS) had the highest state agency spending in fiscal year 2012 and accounted for 27.8% of total agency spending. DHFS spending of \$8.158 billion in fiscal year 2012 is \$849 million, or 11.6%, more than fiscal year 2011. Appropriations were up \$616 million over fiscal year 2011, and DHFS allowed less of the appropriation to lapse than it did in fiscal year 2011.

Agency	Fiscal Year										Change from FY 2011 to FY 2012	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Amount	Percent
Healthcare and Family Services (Public Aid)	\$ 5,099	\$ 5,690	\$ 4,990	\$ 7,343	\$ 7,725	\$ 8,089	\$ 9,556	\$ 7,239	\$ 7,309	\$ 8,158	\$ 849	11.6 %
State Board of Education	5,133	5,471	5,751	6,045	6,472	6,995	7,357	7,273	6,912	6,739	(173)	(2.5)
Human Services	3,502	3,597	3,747	3,817	3,885	4,086	4,144	3,997	3,894	3,415	(479)	(12.3)
Higher Education	2,471	2,308	2,210	2,190	2,269	2,195	2,398	2,230	2,146	2,844	698	32.5
Teachers Retirement	923	805	942	610	814	1,110	1,527	914	256	2,494	2,238	874.2
Corrections	1,162	1,183	1,198	1,170	1,119	1,208	1,308	1,156	1,205	1,210	5	0.4
State Employees Retirement	0	0	66	0	0	0	0	0	39	904	865	N/A
Children and Family Services	824	795	754	803	771	887	906	847	840	806	(34)	(4.0)
Aging	242	256	331	352	421	458	537	653	646	731	85	13.2
Judicial Agencies	328	335	325	305	322	351	376	310	323	375	52	16.1
State Police	183	177	175	173	193	210	215	265	272	271	(1)	(0.4)
Secretary of State	130	120	126	125	131	143	144	257	259	258	(1)	(0.4)
Revenue	145	159	125	127	148	156	155	128	134	123	(11)	(8.2)
Central Management Services	840	1,045	983	95	105	82	74	88	96	75	(21)	(21.9)
Other Agencies	927	737	819	958	1,136	1,201	1,091	961	1,138	894	(244)	(21.4)
Prior Year Adjustments	(15)	(48)	25	(10)	(11)	(14)	(14)	(17)	(22)	(88)	(66)	N/A
Total, General Funds Warrants Issued	\$ 21,894	\$ 22,630	\$ 22,567	\$ 24,103	\$ 25,500	\$ 27,157	\$ 29,774	\$ 26,301	\$ 25,447	\$ 29,209	\$ 3,762	14.8 %
Regular Transfers Out	2,031	2,519	3,657	3,059	2,973	3,201	3,185	3,304	5,070	4,259	(811)	(16.0)
Base General Funds Expenditures	\$ 23,925	\$ 25,149	\$ 26,224	\$ 27,162	\$ 28,473	\$ 30,358	\$ 32,959	\$ 29,605	\$ 30,517	\$ 33,468	\$ 2,951	9.7 %
Short-Term Borrowing Repayment	710	990	768	1,014	11	1,503	1,424	2,276	1,322	0	(1,322)	(100.0)
Transfer to Budget Stabilization Fund	226	226	276	276	276	276	276	0	276	550	274	N/A
Repayment of Interfund Borrowing	0	0	0	0	0	0	0	0	9	355	346	N/A
Cash Flow Transfer	0	0	979	0	1,356	2,400	300	870	260	0	(260)	(100.0)
Total, General Funds Expenditures	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452	\$ 30,116	\$ 34,537	\$ 34,959	\$ 32,751	\$ 32,384	\$ 34,373	\$ 1,989	6.1 %

GENERAL FUNDS BASE SPENDING *CONCLUDED*

The State Board of Education was the agency with the second highest spending in fiscal year 2012 with \$6.739 billion or 23.1% of total state agency spending. The State Board of Education's spending decreased slightly by \$173 million or 2.5% from fiscal year 2011. General state aid to school districts accounts for the largest portion (66.0% or \$4.4 billion) of State Board spending.

In fiscal year 2012, the Department of Human Services spending decreased to \$3.415 billion from \$3.894 billion, a decrease of \$479 million or 12.3%, due largely to a \$441 million decrease in fiscal year 2012 appropriations. Fiscal year 2012 Corrections spending of \$1.210 billion was an increase of \$5 million or 0.4% from fiscal year 2011.

Higher Education agencies' spending increased from \$2.146 billion in fiscal year 2011 to \$2.844 billion, an increase of 32.5% in fiscal year 2012. How-

ever, almost all of that increase was in spending by the State Universities Retirement System, which paid its pension costs directly in fiscal year 2012 instead of having them paid through the issuance of bonds. For the same reason, the Teachers' Retirement System expenditures increased 874.2% to \$2.494 billion in fiscal year 2012, and the State Employees' Retirement System had \$904 million in expenditures as retirement spending from the General Funds was appropriated directly to the retirement system instead of each agency.

Transfers Out decreased \$811 million or 16.0% due to reductions in debt service transfers, transfers to the Healthcare Provider Relief Fund, and statutorily required transfers.

Fiscal Year	General Funds				General Revenue Fund	
	GAAP Balance	Change	Budgetary Balance	Change	Budgetary Balance	Change
1998	(213)	(213)	356	356	281	281
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	(9,133)	(1,123)	(4,984)	(477)	(4,129)	837

* GAAP balance as restated.

FISCAL CLIMATE - FISCAL YEAR 2012

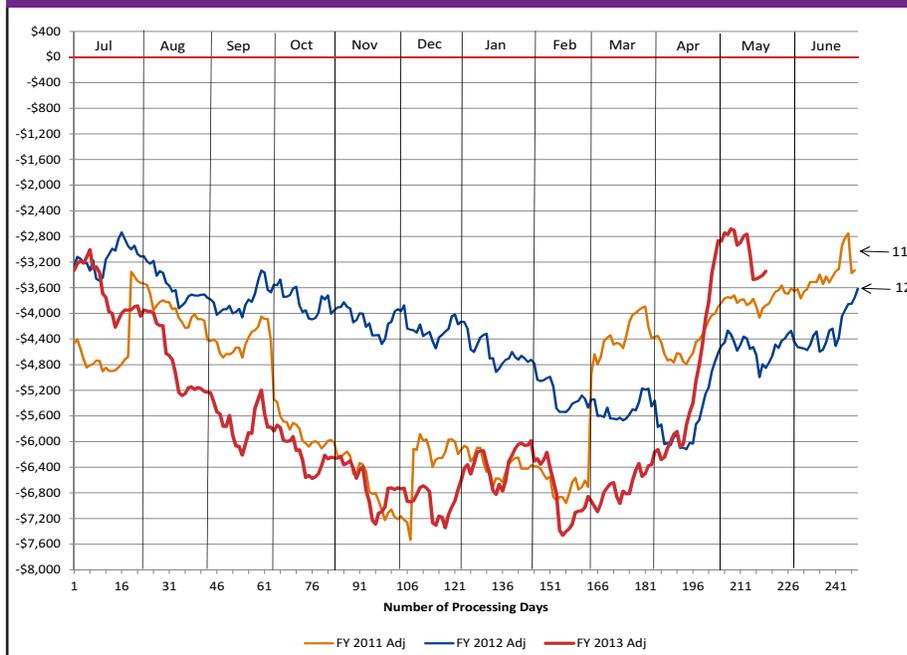
Even with higher balances (cash and budgetary) and a reduction in the backlog of unpaid bills, fiscal year 2012 began under tenuous circumstances. It appeared that state appropriations for medical services were insufficient to address the increase in Section 25 liabilities, the carried over medical bills. Other budgetary challenges included the end of federal stimulus funding for Medicaid bills and the decision to fund fiscal year 2012 pension payments from current revenues. On June 30th, fiscal year 2011 ended with unpaid bills totaling \$3.798 billion on hand at the Comptroller's Office (IOC). With \$1.353 billion in additional fiscal year 2011 expenditures processed in July and August, fiscal year 2011 lapse period spending totaled \$5.151 billion. Lapse period was extended to December 31, 2011 to allow the state additional time to close out fiscal year 2011. Therefore, almost 17% of state sources of revenue in fiscal year 2012 were needed to pay fiscal year 2011 liabilities.

The state ended the first quarter in September 2011 with \$3.817 billion in unpaid bills compared to \$5.510 billion the prior year. Several one-time budget relief items utilized in the prior year, including the interfund borrowing, tobacco securitization bonds, and tax amnesty were not available

in fiscal year 2012. However, economic revenues improved with income taxes and sales tax revenues increasing. Income tax revenues increased significantly in the first quarter of the fiscal year due to the increase in income tax rates. With a decline in Medicaid lapse period spending and the end of federal requirements on Medicaid expenditures, federal reimbursements decreased in the first quarter.

By the end of December 2011, the backlog of unpaid bills totaled \$4.273 billion but the state was able to pay all fiscal year 2011 vouchers by the end of the quarter. This was a slight improvement from December 2010 (if the pension liabilities in 2010 were backed out of those numbers). Also, it was the first time since fiscal year 2007 that there had not been a short-term borrowing to assist with lapse period obligations. Base revenues were up only \$211 million at the end of the quarter. The growth in economic revenues, primarily income tax receipts, was offset by the loss of budget relief items utilized in the previous year and the continued decline in federal revenues and Medicaid spending. The Department of Healthcare and Family Services had not sent an estimated \$2 billion in Medicaid bills to the IOC.

**Comparison of General Funds Daily Cash Balances
FY 2011 - FY 2013 Adjusted to Reflect Unpaid Bills
Dollar Amounts in Millions**



At the end of March 2012, the growth in income tax revenue from the tax rate increase had ended. Spending pressure continued for the General Funds, due in part to current funding of retirement contributions instead of issuing pension bonds as in previous years. With the prior year pension vouchers being backed out due to the pension bond issue, the backlog of unpaid bills at the IOC grew to \$5.577 billion at the end of the third quarter and was over \$1 billion higher than the same time the previous year. With a shift in higher education funding and the current funding of pensions, the General Funds backlog of bills included the Education Assistance and Common School Funds and not just the General Revenue Fund as in prior years.

At the end of fiscal year 2012, the backlog of unpaid bills and fund transfers at the IOC in three of the four General Funds totaled \$3.656 billion. Beyond this total, there was approximately \$3.5 billion in outstanding liabilities – primarily Medicaid and state employee health insurance bills – that had not been submitted to the IOC. Also, some social service spending programs ran out of appropriation authority before the end of the fiscal year.

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 \$2.331 billion increase in base revenues for fiscal year 2012 as a large portion of those dollars were needed in order to fund the sound fiscal decision to fund state pensions from current revenues instead of issuing bonds.

Lapse period spending of \$1.368 billion once again resulted in over \$5 billion in fiscal year 2013 revenues used to pay prior year liabilities. On a budgetary basis, the General Funds fiscal end of year balance deteriorated from a negative \$4.507 billion for fiscal year 2011 to a negative \$4.984 billion for fiscal year 2012. Section 25 liabilities doubled by the end of the fiscal year adding to the financial difficulties for the next year.

A Look at 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 of \$5.024 billion, once again 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 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). This reduction and other cuts in social services appropriations have 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 are 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 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 last year.

By the end of the third quarter of fiscal year 2013, the backlog of bills at the IOC totaled \$6.510 bil-

FISCAL CLIMATE *CONCLUDED*

lion. 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 last year. After nine months, base revenues were up \$1.548 billion and base spending grew by \$1.634 billion.

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, some programs such as Aging's Com-

munity Care Program had expended most of its appropriation by the end of March.

As the fiscal year 2014 budget is crafted, several key issues with fiscal impact – including pension system changes, reviews of transfers to other state funds and gaming expansion – will be debated and the results will impact the state's fiscal picture for many years to come. However, even with significant changes, backlogs in payments likely will persist and may grow, especially in 2015 when income tax rates are reduced. ■

