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STATE OF ILLINOIS
COMPTROLLER
JUDY BAAR TOPINKA

FISCAL FOCUS

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The State Fiscal Crisis- How Did We Get Here?

COVER STORY- Page 4

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STATE OF ILLINOIS COMPTROLLER
JUDY BAAR TOPINKA

~ Letter from the Comptroller ~

THE BALANCING ACT

As the summer ends, the thoughts of many Illinoisans turn to fall weather and football, and all the leaf raking and tailgating that goes along with it. Illinois policymakers, on the other hand, have something far less fun on their minds – the state's fiscal crisis.

Balancing a budget the size of Illinois' is never easy. When various interest groups and lawmakers, with sometimes competing priorities, dispersed throughout a state as large and diverse as Illinois are all vying for their share of limited taxpayer dollars, the resulting budget can quickly become a stew prepared by a thousand chefs. And the taste of that stew? Well, let's just say the brats at Soldier Field have nothing to worry about.

While this process is complicated enough, deferred pension payments, deferred Medicaid payments, and other budgetary gimmicks have not made matters any easier. Add the Great Recession to the fray, and the difficulties we face are plain to see.

No entity can borrow and spend its way to a balanced budget. Unfortunately, the State of Illinois seems trapped in a vicious borrow-and-spend cycle – one that cannot continue forever. These problems didn't occur yesterday. In fact, they are many years in the making.

In this issue of *Fiscal Focus*, we discuss the state's overall fiscal health, including an examination of the current crisis and how we got here. Various revenue sources and other aspects of tax policy are discussed as well.

We hope you find this issue of *Fiscal Focus* to be informative. If you have any comments, please feel free to share them with us at (217) 782-6000 or at our website www.illinoiscomptroller.com.

Judy Baar Topinka

Illinois State Comptroller

~ From the State Capitol ~

COMPTROLLER ACTS TO IMPROVE TRANSPARENCY AND ACCOUNTABILITY

The Illinois Office of the Comptroller has relaunched its website to include easy-to-access state financial records and reports, links to social network newsfeeds, office program and service information, and enhanced search capabilities that allow the public to "follow the money."

The revamped site for the Illinois Office of the Comptroller can be viewed at www.illinoiscomptroller.com.

Specifically, changes to the Comptroller's website will allow the public to more easily:

- Access state contractor information, and check political contributions made by those doing business with the state
- Examine the finances of Illinois government in real-time through greater access to detailed fiscal information, including debt levels, bond ratings and fund balances
- Check on the status of vendor payments from the state
- Search the state's uncashed checks, and begin the process of recovering money
- Learn more about office programs and services, including Check for Cash, Direct Deposit and Take Charge Illinois
- Sign-up for Comptroller news and publications, and social media newsfeeds
- Contact Comptroller Topinka and office staff ■

Direct Deposit IMPROVES EFFICIENCY, SAVES DOLLARS

Legislation increases use of electronic payments for state vendors, employees

Illinois Comptroller Judy Baar Topinka is touting General Assembly passage of *Direct Deposit* legislation, which builds efficiency and saves more than $1 million annually in paper and postage costs alone by requiring that certain state payments be made electronically.

Initiated by Topinka and overwhelmingly passed by state Senate and House members, the Direct Deposit legislation also ends the inefficient practice of mailing low-dollar interest checks – sometimes literally for cents – from the state to its vendors.

"These are common sense changes that will make state government more efficient, and save taxpayer dollars," Topinka said. "It is the kind of thing that should be going on in every office and agency throughout state government. We need to continue to find ways to streamline operations and identify savings wherever possible in order to regain our fiscal footing."

Direct Deposit legislation requires non-union employees, and all vendors and contractors that receive 30 or more checks annually from the State to register for electronic payments, or be subject to a $2.50 per check fee for each hard copy. Over 14,500 vendors received 30 or more payments from the same state agency last year, totaling more than 2.5 million checks.

The legislation further ends the inefficient and costly practice of mailing low-dollar interest checks to state vendors. Specifically, the legislation sets a minimum threshold of $5.00 for any interest checks sent by the state. Interest checks for greater dollar values will continue to be made, ensuring those most impacted by payment delays are appropriately compensated. ■

DIRECT DEPOSIT PROGRAM

- Direct Deposit legislation requires non-union employees, and all vendors and contractors that receive 30 or more checks annually from the State to register for electronic payments, or be subject to a $2.50/check fee for each hard copy.
- Over 14,500 commercial vendors received 30 or more paper transactions from the same agency, totaling more than 2.5 million checks. By making those payments electronically, the state will realize an estimated cost savings of over $1 million (2.5 million x .40) on postage and paper alone.
- The state of Illinois sent 96,142 interest penalty checks under $5.00 between August 18, 2009 and December 31, 2010. The average amount of these checks was $1.17. Direct Deposit will end that inefficient and costly practice. ■

Comptroller's Critters PROGRAM SAVES ANIMALS, MONEY

Topinka launches partnership with animal adoption centers

Illinois Comptroller Judy Baar Topinka recently announced Comptroller's Critters, a program aimed at bringing potential pet owners together with Illinois shelters to provide loving homes for animals – and ultimately save on overpopulation costs.

Topinka noted that more than 50 Illinois shelters have already signed on to Critters, which invites all state shelters to post pictures and information about adoptable pets on the Comptroller's website, providing a one-stop-shop for families looking for a new animal.

"Comptroller's Critters puts pets in loving homes by using our website, information from shelters, and other resources already in existence," Topinka said. "In fact, by bringing adoptable dogs and cats together with families that want them, we will save in the long-run on overpopulation and animal control costs."

Thousands of dogs and cats are euthanized every year in Illinois because loving homes cannot be found. In fact, more than 10,000 were euthanized last year in the city of Chicago alone. At the same time, abandoned pets cost state taxpayers in local animal control efforts. Comptroller's Critters aims to save on those costs by matching pets with homes.

An avid supporter of pet adoption, Topinka most recently welcomed 11-year-old Beagle, Bella; 7-year-old Scottie, Jack; and Nora, a 3-year-old Scottie, into her home. ■

Comptroller Judy Baar Topinka (center), with Kelly Yearwood (lt) and Jan Petrella (rt) – both from the Chicagoland Dog Rescue in Schaumburg, Illinois, observe "Lainy", the first pet adopted through the *Comptroller's Critters Program.*

THE STATE FISCAL CRISIS

How Did We Get Here?

Cover STORY

Faced with unprecedented fiscal challenges created over nearly a decade, Illinois is at a financial crossroads – and the decisions made in coming legislative sessions will determine whether the state regains its fiscal footing, or slips deeper into despair.

The severity of the situation was illustrated as the state ended fiscal year 2011 on June 30 with nearly $4 billion in unpaid bills dating back to January. When lapse period spending is included, the end-of-fiscal-year payment deficit balloons to $5.1 billion, which will be paid with fiscal year 2012 revenues.

That means the state once again began its financial year in a multi-billion dollar hole – and the cycle continues.

While the recent recession has exacerbated the state's fiscal condition, the severity of Illinois' financial crisis is due to minimal attempts to restore financial stability in the years following the 2001 recession. Over that time, the ease of quick, short-term solutions and the inability to budget for the future left the state particularly vulnerable to the recent economic downturn.

Specifically, economic recessions mean lower than anticipated revenues, and greater demand for state services. That can be especially difficult for decision-makers, who then must either find ways to increase revenues, or cut services, in order to balance a budget. Consequently, the state has too often relied on temporary "gimmicks" to buy time for an economic rebound. That strategy, however, can backfire in a prolonged recession.

Faced with a looming financial crisis, state government increased individual and corporate income tax rates in January, 2011. Passed as a temporary measure that will sunset on December 31, 2014, the increase took individual tax rates from 3 to 5 percent, and corporate tax rates from 7.3 to 9.5 percent. But the revenue increases will only go so far – to truly regain its financial footing, Illinois must implement financial reforms, and avoid repeating the mistakes of the last decade.

BUDGETARY BALANCE

The State Constitution (Article VIII – Section 2) requires that proposed spending not exceed estimated revenues available – in other words, a

– *continued on page 5*

GENERAL FUNDS OVERVIEW
(millions of dollars)

	Fiscal Year											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Beginning Balance	$ 1,351	$ 1,517	$ 1,126	$ 256	$ 317	$ 182	$ 497	$ 590	$ 642	$ 141	$ 280	$ 130
Revenue	23,250	24,106	23,605	24,987	27,049	28,183	28,635	30,272	33,838	32,120	30,329	33,797
Expenditures	23,084	24,497	24,475	24,926	27,184	27,868	28,542	30,220	34,339	31,981	30,479	33,458
June 30 Available Balance	$ 1,517	$ 1,126	$ 256	$ 317	$ 182	$ 497	$ 590	$ 642	$ 141	$ 280	$ 130	$ 469
Operational Surplus/Deficit	$ 166	$ (391)	$ (870)	$ 61	$ (135)	$ 315	$ 93	$ 52	$ (501)	$ 139	$ (150)	$ 339
Balanced (View 1)	**Yes**	**No**	**No**	**Yes**	**No**	**Yes**	**Yes**	**Yes**	**No**	**Yes**	**No**	**Yes**
Lapse Period Expenditures	$ 740	$ 826	$ 1,476	$ 1,411	$ 592	$ 971	$ 881	$ 777	$ 975	$ 3,953	$ 6,224	$ 5,100 est.
Budgetary Balance	$ 777	$ 300	$ (1,220)	$ (1,094)	$ (410)	$ (474)	$ (291)	$ (135)	$ (834)	$ (3,673)	$ (6,094)	$ (4,631)
Balanced (View 2)	**Yes**	**Yes**	**No**	**No**	**No**	**No**	**No**	**No**	**No**	**No**	**No**	**No**
Balanced (View 3)	**Yes**	**No**	**No**	**Yes**	**Yes**	**No**	**Yes**	**Yes**	**No**	**No**	**No**	**Yes**

Balanced (View 1) — Based on changes in the June 30 available balance
-- Yes, if the balance increases (or is unchanged)
-- No, if the balance decreases

Balanced (View 2) — Based on the relationship between Lapse Period expenditures and the June 30 available balance.
-- Yes, if the June 30 available balance exceeds Lapse Period expenditures
-- No, if Lapse Period expenditures exceed the June 30 available balance

Balanced (View 3) — Based on changes in the Budgetary Balance
-- Yes, if the balance increases
-- No, if the balance decreases

balanced budget. But there are ways around the requirement, and over the years the state has generally satisfied the requirement without actually delivering a "balanced" financial plan.

In fact, fiscal year 2000 was the last time the state budget was balanced under the three different views of a "balanced budget." Specifically, at the end of fiscal year 2000, the General Funds had an available (June 30th) balance of $1.5 billion and a budgetary balance of $777 million. (To see how a balanced budget is calculated, see "Defining a Balanced Budget" article below).

There are three views used for determining whether a budget is balanced. The first is the "available balance" measure, which has been used frequently in the past but is now almost meaningless. For instance, while the June 30, 2009 cash balance was higher than the previous year, there were $2.8 billion in bills that could not be paid. Another view, "changes in the budgetary balance," specifically examines revenues and spending for the fiscal year and determines whether that budget was balanced. But the view does not take the deficit at the beginning of the year into consideration.

That leaves the "budgetary balance" view as the best way to determine whether the state budget is balanced. This calculation begins with the prior year balance (positive or negative), adds the revenue generated in that fiscal year, and subtracts the spending authorized for the fiscal year. Based upon the "budgetary balance" view, the state has not had a balanced budget since the end of fiscal year 2001.

BUDGETARY GIMMICKS

While the budgetary balance can be an indicator of the state's fiscal health, it does not always tell the whole story. In fact, Illinois has used a variety of maneuvers over the years to present the appearance of a balanced budget, even as the tactics undermine the long-term fiscal health of the state. For instance, Section 25 of the State Finance Act provides the timeline for paying the state's liabilities and allows for the deferral of certain payments, including Medicaid and state employee health insurance. Those payment delays may allow for a temporary "balanced budget," but the liabilities remain, and are then compounded in subsequent years.

Still, the deferral of Medicaid and employee health insurance payments pales in comparison to the state's mounting pension liabilities. Illinois first reduced pension funding to below the amount of expenditures of the retirement systems in the early 1980's. The practice continued over the years, with the state further reducing its pension contributions to below necessary levels on multiple occasions, and moving the burden to future years.

Recognizing the long-term ramifications of the delayed payments, the state in 1995 committed to reaching a 90 percent funded ratio by 2045. But subsequent legislation has periodically modified the funding requirements, or authorized borrowing to cover the state's contribution. As a result, the Illinois systems are among the most poorly funded in the United States, and will require large annual contributions in order to meet the 90 percent target in 2045.

Beyond deferring spending, Illinois has relied on revenue gimmicks to fill budget shortfalls. One-time revenue sources, such as a tax amnesty or fund sweeps, have been used to increase spending or balance the annual financial plan. Unfortunately, the one-time revenues are rarely used for one-time

– continued on page 6

DEFINING A BALANCED BUDGET

Everyone understands that the phrase "balanced budget" implies that revenues and spending for the year are in balance. But it is important to note that a balanced budget on a cash basis does not necessarily convey the overall financial health of the state, as balances do not include legally deferred spending (under Section 25 of the State Finance Act) or other gimmicks (under funding pensions), and is not based on generally accepted accounting principles.

There are three views used to determine a cash basis balanced budget:

AVAILABLE BALANCE VIEW: This is a comparison of revenues and spending over the twelve-month fiscal year. If revenues exceed spending there is an operational surplus and the end-of-year available balance increases. If not, then there is an operational deficit that is financed by drawing down the end-of-year balance.

BUDGETARY BALANCE VIEW: This view compares the end-of-year balance to lapse period spending. Although state agency budgets are enacted on the basis of a twelve-month fiscal year, agencies are permitted to spend their appropriations over a 14-month period. The additional two months (July and August) are referred to as the lapse period. During this period, agencies are allowed to use last year's spending authority (appropriation) to pay for bills incurred during the prior year. Lapse period spending includes all outstanding payables on June 30, including transfers.

If the end-of-year available balance is high enough to cover lapse period spending, the budget is said to be balanced. If the opposite occurs, the budget is out of balance. When this happens, it effectively means that next year's money is used to pay last year's bills. This comparison produces a number that is referred to as the budgetary balance.

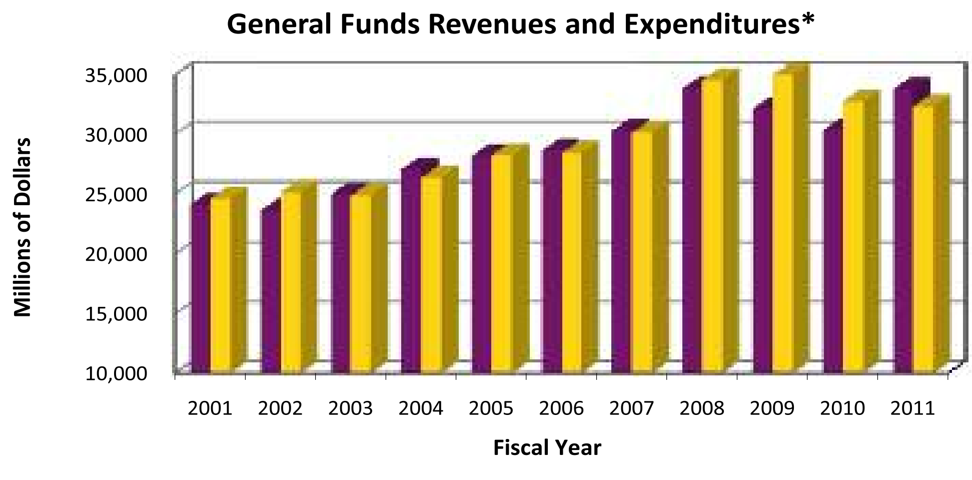
CHANGES IN THE BUDGETARY BALANCE: If the budgetary balance improves, the budget is balanced. This holds true even when the budgetary balance goes from a large negative to a smaller negative. In that case there is cash improvement and the budget for that year was balanced. ■

expenditures. Instead, they increase base spending which require additional revenues to maintain in the future.

RECENT HISTORY

So how has the budget ended up so unbalanced?

Most recently, revenues dramatically declined because of the recession, leaving the fiscal year 2009 and 2010 budgets completely unbalanced. In fact, the fiscal year 2009 General Funds budget was reported out-of-balance from the beginning of the year because of declining revenues. Expenditure authority exceeded revenue estimates, and the Governor's spending cuts were insufficient. The 2009 picture would have been worse, but Illinois benefited from federal stimulus funding for education and Medicaid, and by pushing repayment of $1 billion in short-term borrowing to the next fiscal year.



*Expenditures include lapse period spending - this chart illustrates the change in the budgetary balance.

Fiscal year 2010 was disastrous for Illinois. Faced with further declining revenues and the need to repay the prior year's short-term borrowing, Illinois would have needed dramatic spending decreases in order to move back towards a balanced budget. Instead, the state borrowed to pay its 2010 pension obligation, avoiding immediate decisions and moving the burden to future years.

It is important to note, though, that the decisions leading to the current fiscal crisis took place over many years. In the pre-recession days of strong revenue growth, the state too often chose to increase spending, instead of paying bills more promptly, focusing on pension liabilities, or setting aside reserves in a "rainy day" fund.

THE TIMELINE: FISCAL YEARS 2001-2003

After showing a positive budgetary balance in 2001, Illinois began its fiscal decline.

Revenues began to decline in fiscal year 2002 (income tax revenues dropped $758 million, mostly in the final six months of the year), but there was no corresponding decline in spending. Instead, the available balance was drawn down, and lapse period spending grew.

By fiscal year 2003, the state was using various gimmicks to attempt to balance the budget – including the first short-term borrowing issued by Illinois in seven years. General Funds revenues were supported by fund sweeps (taking monies from other funds), a portion of a $10 billion pension bond issue, a temporary increase in gaming taxes and $1.675 billion from two short-term borrowing initiatives. Total spending for fiscal year 2003 increased by $386 million and included repayment of one of the borrowings, with $975 million carried over to the next year.

THE TIMELINE: FISCAL YEARS 2004-2005

As the economy gradually recovered, fiscal year 2004 brought significant improvement in the state's finances. Illinois further bolstered its budget with one-time revenue sources including; a tax amnesty program, legislation authorizing the transfer of monies from other funds, federal bailout block grants, and additional monies from the pension bonds deposited into the General Funds. Appropriations for fiscal year 2004 were increased by $1.1 billion even though some retirement expenditures were reduced and paid from the pension bond fund. Medicaid accounted for over half the increase in appropriations and was used to take advantage of temporarily increased federal reimbursement rates.

Fiscal year 2004 also saw a significant decline in Section 25 Medicaid liabilities – but that improvement was short-lived. With many one-time revenues now depleted, the state could not support an increase in spending authority. Although appropriations for fiscal year 2005 were up only $353 million, Medicaid appropriations were reduced by $500 million and Section 25 Medicaid liabilities returned to prior levels. That meant that other state spending was increased at the expense of timely payments to Medicaid providers. This choice came back to impact Illinois in fiscal year 2009.

THE TIMELINE: FISCAL YEARS 2006-2007

Fortunately for Illinois, the next two fiscal years saw dramatic improvement in the economy, and revenues exceeded expectations. However, there was continued pressure to increase education and social service spending, and the state reduced its retirement system

– continued on page 7

payments to below certified levels in fiscal years 2006 and 2007 in order to balance the budget.

Most of fiscal year 2006's revenue growth was used for increased Medicaid spending. Section 25 liabilities were not reduced as spending caught up from the prior year decline. Fiscal year 2007 revenue growth was again offset by more than $1 billion in increased spending. While the exceptional revenue growth in these two years helped to offset the loss of many one-time revenue sources used in prior years – and brought Illinois the closest to a budgetary balance during the economic expansion – spending grew with no improvements in deferred Section 25 or pension liabilities.

Unfortunately, sales tax revenue again started to decline at the end of fiscal year 2007, foreshadowing what was to come.

THE TIMELINE: FISCAL YEARS 2008-2010

Illinois started fiscal year 2008 with no bill backlog, but would end the year with $208 million in General Revenue Fund payables. Base revenues in fiscal year 2008 increased by $1 billion because of growth in income taxes in part due to a reduction in the percentage allocated for the Income Tax Refund Fund. But spending also grew – this time by more than $1.5 billion. What had been an opportunity to get to a positive budgetary balance was missed, and the General Funds budgetary balance deteriorated.

With the economy weakening, the fiscal year 2009 budget brought even greater challenges.

Interestingly, fiscal year 2009 budget negotiations began with optimistic revenue growth assumptions and much discord. But by the time the year started in July 2008, revenue estimates were revised downward, showing little – if any – growth. That did not stop the General Assembly from increasing the 2009 General Funds appropriation by $784 million, and once again shorting the state's pension payments.

That left it to the Governor to reduce spending to match the declining revenues. And while some spending was cut, it was insufficient compared to the rapidly declining revenues brought on by one of the worst recessions of modern times. In fiscal year 2009, income and sales tax receipts were down $1.689 billion from the previous year. The decline in income taxes started a backlog in refund payments that continues to this day.

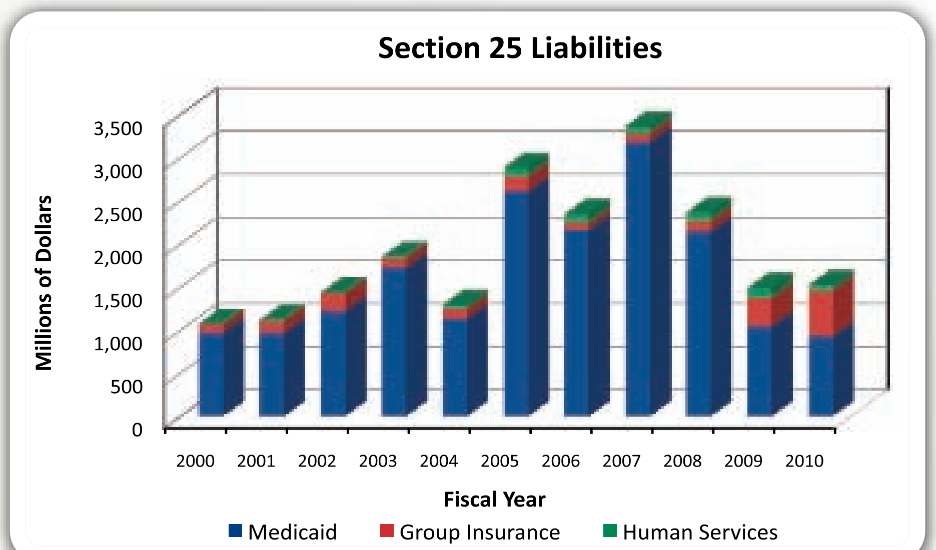
The recession impacted all the states and led to the passage of a federal stimulus program. Among other things, the American Recovery and Reinvestment Act of 2009 (ARRA) increased matching

– continued on page 12

RULE EXCEPTION ALLOWS STATE TO DEFER PAYMENTS

Section 25 of the State Finance Act essentially requires that the state pay its bills from a given fiscal year with that same year's appropriation, allowing for two additional months to process final request for payments. But there are exceptions to the rule that allow Illinois to defer certain payments, including Medicaid and employee health insurance – and the state has taken advantage of that option.

Payments made under the exceptions to Section 25 **("Section 25 liabilities")** are similar to normal lapse period spending in that both types of payments are for liabilities incurred before the end of the fiscal year, but paid after June 30th. However, on a cash basis, normal lapse period spending is charged to an appropriation from the fiscal year in which the liability arose, but Section 25 liabilities are paid for from a subsequent year's appropriation (and, therefore, are not included in lapse period spending). For example, in fiscal year 2010, total Section 25 liabilities totaled $1.52 billion – i.e. approximately $1.52 billion in medical services provided before June 30, 2010 were paid for from fiscal year 2011 appropriations.



For the past several years, the level of Section 25 liabilities is below what had been seen earlier in the decade. Deferred DHFS Medicaid liabilities fell from $3.185 billion in fiscal year 2007 to $929 million in fiscal year 2010. This was due to a requirement under the federal stimulus legislation that certain Medicaid payments be made within 30 days. However, during this same timeframe, state employee health insurance deferred liabilities increased from $93 million to $524 million. This amount is likely to be even higher in fiscal year 2011.

Focus on SPENDING

PENSION PAYMENTS INCREASE APPROPRIATIONS

Non-retirement spending remains flat

Illinois General Funds appropriations rose by more than $3 billion – or 12 percent – in fiscal year 2012, but the increase is tied almost exclusively to the state's decision to make necessary payments to its retirement systems.

In recent years the state has chosen to borrow money to make its pension payments. But in fiscal year 2012, approximately $4.2 billion from the General Funds will go toward the state's contributions for its five retirement systems. When combined with other agencies, fiscal year 2012 appropriations total $29.2 billion.

Increased appropriation authority was almost exclusively limited to the five retirement systems – General Assembly Retirement Systems, Judges' Retirement System, Teachers' Retirement System, State Universities Retirement System, and State Employees' Retirement System. Total appropriations to the retirement systems from the General Funds increased from $360 million in fiscal year 2011 to $4.328 billion in fiscal year 2012. In contrast, fiscal year 2011 saw the majority of the state's retirement obligation funded by the sale of general obligation bonds.

Aside from the retirement systems, nearly every agency in state government received either decreased or flat funding from the previous fiscal year. Some of the hardest hit included the Department of Human Services (down $693 million or 17.8 percent), State Board of Education (down $269 million or 3.8 percent), Violence Prevention Authority (down $82 million or 86.7 percent due to some one-time grant programs in fiscal year 2011) and Transportation (down $47 million, or 60 percent due to the switch of some funding off of the General Revenue Fund).

The Department of Healthcare and Family Services had an overall funding increase ($537 million or 7.0 percent) in fiscal year 2012 due to an increase in the line for state employee health insurance, although Medicaid appropriations were reduced from fiscal year 2011. Department on Aging also received an increase - $87 million, or 13.3 percent – to cover the increasing costs of the department's Community Care Program. ■

General Funds Appropriations by Agency
Fiscal Years 2011 and 2012
($ in thousands)

	FY 2011	FY 2012	$ Change	% Change
General Assembly	57,580	56,475	(1,104)	(1.9)
All Other Legislative	31,753	36,014	4,261	13.4
Total, Legislative	**89,332**	**92,489**	**3,157**	**3.5**
Supreme Court	289,840	287,605	(2,235)	(0.8)
Judges' Retirement System	15,042	63,628	48,586	323.0
Office of the State Appellate Defender	21,599	21,475	(124)	(0.6)
All Other Judicial	9,911	9,208	(703)	(7.1)
Total, Judicial	**336,392**	**381,916**	**45,523**	**13.5**
Governor	6,386	6,386	-	-
Lt. Governor	1,363	2,001	638	46.8
Attorney General	32,593	32,593	-	-
Secretary of State	260,277	260,277	-	-
Comptroller	107,370	107,560	189	0.2
Treasurer	16,918	16,918	-	-
Total, Elected Officials	**424,907**	**425,734**	**827**	**0.2**
Aging	650,612	737,419	86,808	13.3
Agriculture	31,460	29,826	(1,634)	(5.2)
Central Management Services	95,959	69,871	(26,088)	(27.2)
Children and Family Services	846,541	808,534	(38,007)	(4.5)
Commerce and Economic Opportunity	65,537	32,360	(33,177)	(50.6)
Natural Resources	61,495	48,920	(12,575)	(20.4)
Juvenile Justice	124,420	119,350	(5,070)	(4.1)
Corrections	1,209,880	1,167,299	(42,580)	(3.5)
Employment Security	68,908	24,000	(44,908)	(65.2)
Human Rights	9,153	6,888	(2,266)	(24.8)
Human Services	3,901,457	3,208,520	(692,937)	(17.8)
Labor	5,407	5,179	(228)	(4.2)
Military Affairs	18,862	14,589	(4,273)	(22.7)
Healthcare and Family Services	7,640,586	8,177,247	536,661	7.0
Public Health	141,004	132,306	(8,698)	(6.2)
Revenue	139,092	109,710	(29,382)	(21.1)
State Police	276,514	271,642	(4,873)	(1.8)
Transportation	79,035	31,640	(47,395)	(60.0)
Veterans' Affairs	68,232	63,850	(4,383)	(6.4)
Total, Code Departments	**15,434,151**	**15,059,148**	**(375,003)**	**(2.4)**
Arts Council	9,472	8,998	(474)	(5.0)
Executive Ethics Commission	8,271	7,012	(1,259)	(15.2)
Comprehensive Health Insurance Board	24,631	24,631	-	-
Court of Claims	56,581	53,001	(3,580)	(6.3)
Guardian and Advocacy Commission	9,630	9,403	(226)	(2.4)
Historic Preservation	10,796	9,223	(1,573)	(14.6)
Violence Prevention Authority	94,067	12,512	(81,555)	(86.7)
State Board of Elections	15,521	11,344	(4,177)	(26.9)
Emergency Management	20,452	2,954	(17,499)	(85.6)
State Employees' Retirement System	39,063	899,583	860,520	2,202.9
All Other	27,651	20,983	(6,668)	(24.1)
Total, Other Agencies	**316,134**	**1,059,643**	**743,509**	**235.2**
State Board of Education	7,019,761	6,750,387	(269,375)	(3.8)
Teachers Retirement Systems	299,044	2,504,543	2,205,499	737.5
Total, Elementary & Secondary Education	**7,318,806**	**9,254,930**	**1,936,124**	**26.5**
Higher Education (excl. retirement)	**2,154,124**	**2,092,410**	**(61,714)**	**(2.9)**
State Universities Retirement System	5,252	849,881	844,629	16,081.6
Total, General Funds	**26,079,098**	**29,216,151**	**3,137,053**	**12.0**

Source: Comptroller Records, as of July 31, 2011.

Focus on REVENUE

STATE 'SIN' TAXES RAISE NEW REVENUE

With Illinois in a perpetual budget shortfall, decision-makers have increasingly turned to drinkers, smokers and gamblers to pay "sin" taxes on their activities, and generate needed revenue for the state. The dollars have historically been used for education and healthcare costs, but Illinois most recently raised sin tax rates to support a new capital plan.

Sin revenue has grown each year as lottery sales have surged and tax rates on cigarette and liquor purchases have increased over the last decade. In fact, government brought in $2.3 billion in sin tax revenue in fiscal year 2011 - $305 million more than the $2.03 billion it generated in fiscal year 2002.

The Illinois State Lottery is the largest source of sin tax revenue, generating more than $1 billion for the state in fiscal year 2011 - $264 million more than in 2002. That rise was fueled in part by Lottery sales, which totaled $2.28 billion in fiscal year 2011 – more than any year in its history.

Lottery gross receipts are comprised of ticket sales, agent fees and interest. After prize payouts (which accounted for just under 60 percent of proceeds in fiscal year 2010), agent commissions, and administrative expenses, the remaining Lottery proceeds go primarily to the Common School Fund to support elementary and secondary education. Under that formula, $632 million was transferred to the fund in fiscal year 2011. That amount is expected to remain stable, as recent legislation privatizing the lottery management capped transfers to the fund to match fiscal year 2009, adjusted for inflation, with any additional funds going toward the Capital Projects Fund.

Cigarette and other tobacco tax receipts represented the second largest source of sin revenues. The $588 million collected in fiscal year 2011 was $119 million more than what the state brought in during fiscal year 2002. Of the $588 million generated in fiscal year 2011, $237 million went to the General Revenue Fund, $174 million to the Long-Term Care Provider Fund, $116 million to the Common School Fund, and $60 million to the School Infrastructure Fund.

It is interesting to note that the cigarette tax was enacted in 1941 at a rate of 0.1 cent per cigarette, or 2-cents for a pack of 20. Numerous rate increases have occurred since then, with the most recent hikes occurring in 1997 (from 44-cents to 58-cents per pack) and in 2002 (from 58-cents to 98-cents per pack).

Local units of government can also impose cigarette taxes on top of the state's rate. In fact, Cook County increased its cigarette tax rate from 18-cents to $1 per pack in April, 2004 – and then again from $1 to $2 per pack in March, 2006. The City of Chicago also moved to increase its cut of cigarette money – raising its local tax from 16 to 48-cents per pack in January, 2005, and then again to 68-cents per pack in January, 2006.

Riverboat gambling is now the third greatest provider for Illinois. Specifically, riverboats accounted $458 million in sin taxes during fiscal year 2011, down more than $122 million from 2002. Potential explanations for the drop include regional casino competition and the indoor smoking ban.

The state distinguishes between three kinds of riverboat gambling revenue: wagering taxes, license fees and admission taxes (which are shared with the local governments as well). Those dollars are then directed predominately to the Education Assistance Fund, which received $324 million in fiscal year 2011. Other state riverboat dollars are directed for a number of initiatives, including: the Horse Racing Equity Trust Fund, the State Gaming Fund (for administration and enforcement of the Riverboat Gambling Act) and problem gambling treatment.

Liquor taxes have increased by $55 million in the last decade – from $127 million in fiscal year 2002 to $182 million in fiscal year 2011. That rise can be primarily attributed to a tax rate increase in fiscal year 2009. In the prior year, beer and cider were taxed at 18.5 cents per gallon, wine at 73 cents per gallon, and distilled liquor at $4.50 per

– continued on page 13

Receipts From Sin Taxes
(Dollars in Millions)

	Fiscal Year 2002	Fiscal Year 2011	Change Amount	Change Percent
Lottery	$ 827	$ 1,091	$ 264	31.9
Riverboat Gambling	580	458	(122)	(21.0)
Cigarette	469	588	119	25.4
Liquor Tax	127	182	55	43.3
Horse Racing	13	7	(6)	(46.2)
Other	12	7	(5)	(41.7)
	$ 2,028	**$ 2,333**	**$ 305**	**15.0**

Fiscal SMARTS

ILLINOIS TAX EXPENDITURES

Tax breaks assist residents and businesses

Each year, Illinois forgoes billions of dollars in potential revenue by providing tax breaks to individuals, corporations and other organizations throughout the state. Dubbed tax expenditures, the lost revenue comes in the form of exemptions, credits or abatements on everything from sales tax to new developments. And in fiscal year 2010, Illinois reported 236 such breaks, totaling roughly $6.6 billion in foregone revenues.

Tax exemptions are enacted for a variety of reasons. In Illinois, they have been used to provide tax fairness (e.g. food and prescription drug exemption from sales taxes), encourage education (e.g. tuition tax credits) and promote economic development (e.g. tax exemptions for Enterprise Zone businesses). They are seen as a way to reduce the burden on select activities and set fiscal policy without allocating state funds.

In fiscal year 2010, six tax expenditures accounted for $4.5 billion in potential revenue – or almost 70 percent of the total for the year. Detailed below, those expenditures and others can be found in a comprehensive Tax Expenditure Report on the Office of the Comptroller website, www.illinoiscomptroller.com.

- **Food, Drugs and Medical Appliances Rate Reduction:** The sales of some food, beverages, medicines, and medical appliances are taxed at the reduced rate of 1 percent, with the proceeds being distributed to local governments. This reduction in rate cost the state of Illinois an estimated $1.53 billion in fiscal year 2010. This tax expenditure applies to those items deemed essential, and is particularly helpful to low-income individuals and families. It does not apply to soft drinks, alcoholic beverages, or food that has been prepared for immediate consumption.

- **Retirement and Social Security Deductions:** When claiming retirement income, including IRA, disability, social security, and railroad retirement income on their federal tax returns, Illinoisans are allowed a deduction on their state income taxes. In fiscal year 2010, these deductions cost the state $1.089 billion. With many senior citizens are on a fixed income, this tax expenditure seeks to help the elderly keep more of their retirement income. Because the state's senior population is expected to rise rapidly as a percentage of overall population over the next few decades, we can anticipate continued increases for this particular tax expenditure.

- **Standard Deduction:** The $2,000 standard deduction from the personal income tax for individual taxpayers and their dependents had an estimated cost of $716 million in fiscal year 2010. With the personal income tax rate at 3 percent in 2010, this deduction provided a $60 saving for each taxpayer and their dependents. With the personal income tax rate rising to 5 percent for the 2011 tax year, the value of this tax expenditure will rise to $100 for each taxpayer and dependent. The standard deduction adds a bit of progressivity to the flat rate Illinois personal income tax by reducing the effective tax rate for low income families. Therefore, a family of two with $20,000 in taxable income would have had their effective tax rate reduced to 2.4 percent due to the standard deduction. The impact on the effective tax rate for a high income family, on the other hand, would be minimal.

- **Property Tax Credit:** Every individual taxpayer is entitled to a property tax credit of 5 percent during the taxable year for their principal residence. Specifically, an individual who pays property taxes of $3,000 annually qualifies for a $150 tax credit. Renters do not qualify for this benefit, as they do not own the property where they live. In tax year 2010, this tax expenditure cost the state $526 million. This credit assists individuals and families in affording home ownership.

- **Sales to Exempt Organizations:** Purchases by a government body or a non-profit operating exclusively for charitable, religious, or

– continued on page 13

Largest Tax Expenditures - Fiscal Year 2010
(Millions of Dollars)

Amount	Expenditure	Applied Against
$1,530	Food, Drugs, Medical Appliances	Sales Tax
1,089	Retirement and Social Security Deductions	Individual Income Tax
716	Standard Deduction	Individual Income Tax
526	Property Tax Credit	Individual Income Tax
405	Sales to Exempt Organizations	Sales Tax
256	Illinois Net Operating Loss Deduction	Corporate Income Tax
$4.522 Billion	Total, Six Largest Tax Expenditures	
$6.594 Billion	Total, all Fiscal Year 2010 Tax Expenditures	
69%	Share Represented by Six Largest Tax Expenditures	

Focus on DEBT

STAR BOND INITIATIVE

Illinois Looks to Bolster Development

A new state tax incentive designed to encourage retail and entertainment development is in place despite some criticism that it will do little more than siphon business away from establishments already operating in Illinois.

Adopted by the General Assembly during the 2010 legislative session, the Sales Tax and Revenue (STAR) bond program allows the state to borrow money to assist in constructing retail and entertainment destination sites, and then use a portion of its sales tax proceeds to repay the debt. While supporters say the program provides another tool to build the Illinois economy, critics argue it will have limited impact and jeopardize existing state and local government sales tax revenues.

Whether the STAR program is successful will depend on its ability to attract destination and entertainment users to new projects. Targeted users include:

- **Retail Stores** that are at least 150,000 square-feet, involve investment of at least $30 million, are at least 70 miles from the nearest similar Illinois location, and anticipate drawing at least 30 percent of business from out-of-state or more than 75 miles away
- **Hotels** that have at least 150 rooms and include entertainment facilities
- **Entertainment providers,** such as amusement or water parks, that occupy at least 20 acres with an investment of at least $25 million

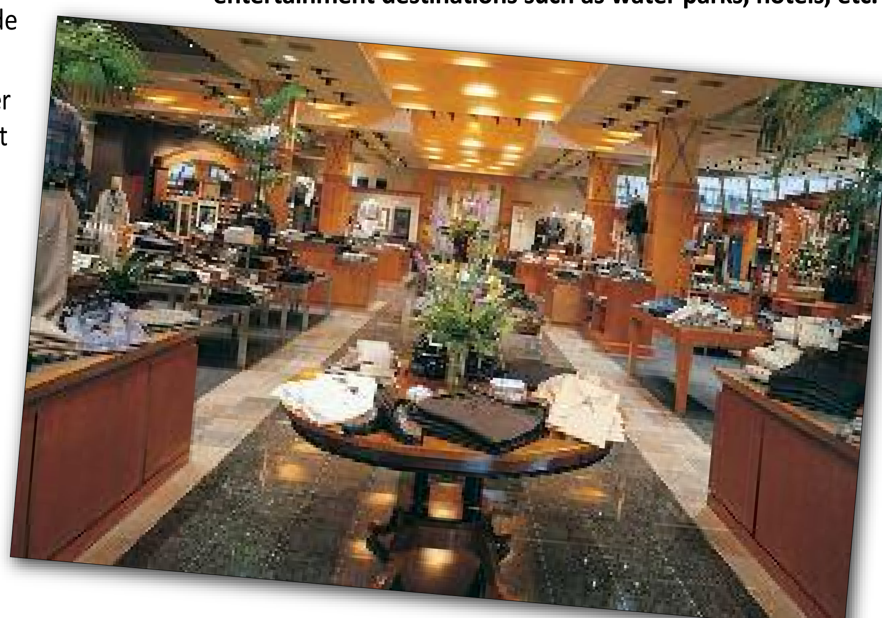
Under the legislation, incremental state sales tax revenues from destination and entertainment users, and other sales tax revenue in the bond district, can be made available for STAR bond debt service. Further, STAR bonds can be issued to pay project costs, but may not exceed 50 percent of total development costs.

Prior to the approval of a STAR bond district, the Illinois Department of Revenue must accept impact and feasibility studies showing at least $100 million in investment, $100 million in annual revenue, and the creation of at least 500 jobs. Schools in STAR bond communities receive 15 percent of increased property tax revenue in the bond district as well.

Restrictions within the legislation limit the number of STAR bond district sites. Eligible locations must be between 250 and 500 acres, adjacent to an interstate highway, in close proximity to two state highways, within one mile of an entertainment user that has a $20 million initial investment (such as a sports stadium), and include previously mined land. A site in Marion met these requirements and is now the home of the Marion STAR Bond district, which received state approval in October 2010.

Ultimately, the question of effectiveness will be determined by an independent committee charged with assessing the STAR bond program after seven years. If the committee does not endorse the program moving forward, no new STAR bond districts may be formed without legislative action. ■

★ **STAR Bonds are in place to encourage development and create entertainment destinations such as water parks, hotels, etc.**



payments to states for Medicaid, and provided grants to subsidize education and state government programs. In fiscal year 2009, the stimulus bill increased Illinois' General Funds revenues by $1.566 billion, which helped offset part of the revenue falloff.

However, the stimulus Medicaid funding required that the state make some payments within 30 days. To meet that requirement, Illinois borrowed $1 billion short-term and increased fiscal year 2009 appropriations. That meant that payments initially scheduled to be delayed under Section 25 were suddenly prioritized for payment, quickly worsening the state's cash position. Ultimately, the fiscal year 2009 base spending of $32 billion on June 30 exceeded its base revenues of $29 billion – resulting in a budget that was more than $3 billion out of balance.

Fiscal year 2010 began with billions of prior year liabilities, little if any expected revenue growth and disagreement over potential solutions. Initial estimates included minor revenue increases, a continued drawdown of federal stimulus monies and a decrease of over $3 billion in General Funds appropriations from fiscal year 2009.

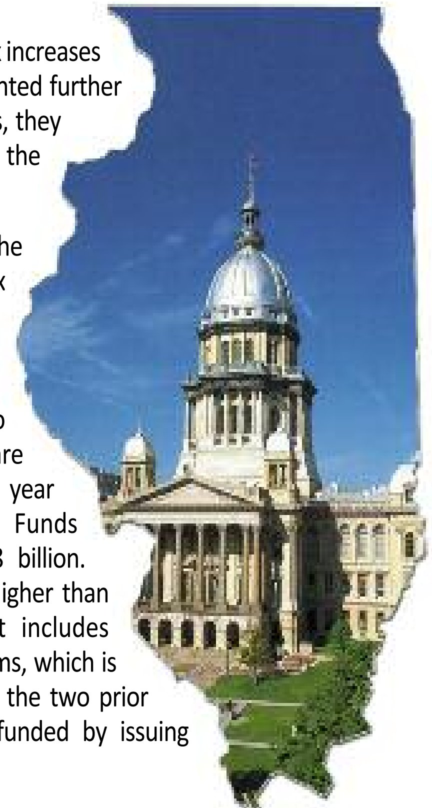
But that decline in appropriations was due primarily to the issue of $3.5 billion in new pension borrowing to replace payments from the General Funds. The budget also included an appropriation of $3.5 billion for the Governor to distribute to various state programs as he deemed necessary. Ultimately, the budget was out of balance by $2.5 billion, as total spending reached $32.8 billion, compared to $30.3 billion in revenues.

Fiscal year 2010 Section 25 liabilities remained at relatively lower levels because of the federal stimulus requirements and pension obligations were once again met by the issuance of state bonds. Both were funded by revenues that were not available long-term. The pension bonds will add to the budgeting pressures over the next five years as the bonds will be repaid over that timeframe. The use of debt to pay for current operations only compounds the problems to implement a balanced budget in the future.

Fiscal Year 2011 and Beyond

As the state's fiscal challenges snowballed, fiscal year 2011 began with a budgetary deficit of $6.1 billion. Worse for the state, federal stimulus monies being used to fund education were no longer available, and the enhanced Medicaid match was to be phased out over the year.

In an effort to offset that revenue loss, one-time sources were once again put in play. Legislation implemented a tax amnesty which generated over $419 million to the General Funds and authorized the securitization of tobacco settlement revenues by issuing bonds with $1.25 billion deposited into the General Funds, using future revenues to support current spending. Illinois once again borrowed to make its pension payment. And while additional revenues from the personal and corporate tax increases passed in January 2011 prevented further deterioration of state finances, they are not enough to eliminate the problem.



In a further effort to regain the state's fiscal footing, the tax increase legislation also imposed General Funds spending caps stipulating that income tax rates revert to original levels if the caps are exceeded. As a result, fiscal year 2012 began with General Funds spending capped at $36.818 billion. That number is significantly higher than the year before because it includes funding for the pension systems, which is a marked improvement from the two prior years when pensions were funded by issuing bonds.

As passed, the fiscal year 2012 budget is estimated at $33.2 billion. This spending level was predicated on a revenue estimate for the year of the same amount. If the final revenue collections match the fiscal year 2012 spending plan, this budget will have no impact on the budgetary balance deficit and little effect on the cash flow position of the state. However, the Commission on Government Forecasting and Accountability has estimated General Funds revenues at $33.9 billion for fiscal year 2012. If this estimate is realized, the state may be able to reduce the backlog of unpaid bills by $700 million. However, Section 25 Medicaid liabilities will increase under this budget and little will be done to pay down accumulated group insurance liabilities.

Conclusion

Approximately 60 percent of the state General Funds budget is used for Medicaid, medical insurance and education costs. Certain expenses in the remaining 40 percent are non-negotiable, such as paying debt service on bonds. That makes it difficult for decision-makers to identify ways to cut spending, leading to many of the gimmicks used over the years to balance the budget. But as Illinois knows well, short-sighted budget solutions are of little help, and in many instances compounded the problem.

One thing is clear: still faced with a volatile economy, Illinois must change its approach to finances if it expects to regain its financial footing. Exactly what that change involves will be determined in coming legislative sessions, which will ultimately prove critical in determining the state's financial future. ■

STATE 'SIN' TAXES RAISE NEW REVENUE– concluded from page 9

gallon. Then in 2009, the state raised beer and cider taxes to 23.1 cents per gallon, wine to $1.39 per gallon and distilled liquor to $8.55 per gallon.

With the exception of the additional revenue from the 2009 rate increases that is designated specifically for the Capital Projects Fund, liquor tax revenues are deposited into the General Revenue Fund. Furthermore, half of the retailer's license fee is split between the Dram Shop Fund and the General Revenue Fund, with all other license fees being deposited into the Dram Shop Fund.

Horse racing, bingo, and pull tabs and jar games are also taxed in Illinois. In fiscal year 2011, $14 million was deposited into the State Treasury from those sources, compared to $25 million in fiscal year 2002. The large decrease is due primarily to changes in horse racing taxes, which were aimed at helping the industry offset losses from riverboat gambling.

The capital plan authorized in 2009 was funded by gaming and lottery expansion, and by increasing taxes and fees on motor vehicle titles, license plates, liquor, candy and personal hygiene products. A lawsuit was filed in August of 2009 by Wirtz Beverage Illinois LLC, *Wirtz v. Quinn*, claiming that the bill was unconstitutional. An appellate court ruled in favor of Wirtz Beverage, but on July 11, 2011, the Illinois Supreme Court upheld the original law that created the $31 billion statewide construction program, keeping the 2009 revenue and fee increases in place. ■

ILLINOIS TAX EXPENDITURES– concluded from page 10

educational purposes, are exempt from sales tax. This expenditure cost the state $405 million in fiscal year 2010. Non-profit organizations are exempt from the state income tax as an extension of their exemption from the federal income tax. It is presumed that savings from these taxes will increase the resources available for charitable, religious, and educational activities.

- Illinois Net Operating Loss Deduction: Since the corporate income tax is a tax on profits, there will often be years when a particular corporate taxpayer suffers a loss. The Illinois net operating loss deduction allows the loss to be carried forward and used as an offset to future profits for 12 years. This tax expenditure cost Illinois $256 million for fiscal year 2010. However, the net operating loss deduction is suspended for the period, January 1, 2011 through December 31, 2014 as part of the recent tax package with the carryforward extended four years for the suspended loss. ■

FISCAL FOCUS

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.

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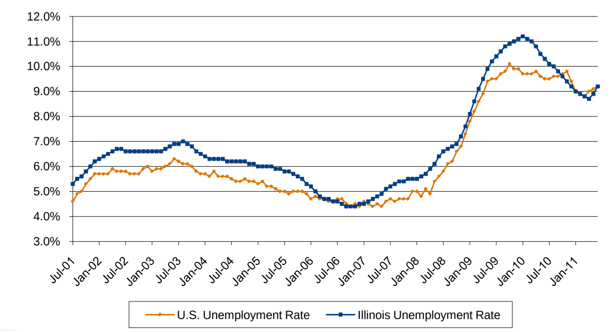
GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	June 2011	FY 2011	Twelve Months Change From Prior Year $	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 1,273	$ 11,225	$ 2,714	31.9 %
Corporate	333	1,851	491	36.1
Total, Income Taxes	$ 1,606	$ 13,076	$ 3,205	32.5 %
Sales Taxes	608	6,833	525	8.3
Other Sources:				
Public Utility Taxes	101	1,147	58	5.3
Cigarette Taxes	30	355	0	0.0
Inheritance Tax (gross)	1	122	(121)	(49.8)
Liquor Gallonage Taxes	14	157	(2)	(1.3)
Insurance Taxes and Fees	62	317	(5)	(1.6)
Corporation Franchise Tax and Fees	16	207	(1)	(0.5)
Investment Income	0	28	2	7.7
Cook County IGT	0	244	0	0.0
Other	47	434	(75)	(14.7)
Total, Other Sources	$ 271	$ 3,011	$ (144)	(4.6) %
Total, Cash Receipts	$ 2,485	$ 22,920	$ 3,586	18.5 %
Transfers In:				
Lottery Fund	$ 67	$ 632	$ 7	1.1 %
State Gaming Fund	26	324	(59)	(15.4)
Other Funds	101	2,204	533	31.9
Total, Transfers In	$ 194	$ 3,160	$ 481	18.0 %
Total, State Sources	$ 2,679	$ 26,080	$ 4,067	18.5 %
Federal Sources	$ 550	$ 5,386	$ (534)	(9.0) %
Total, Base Revenues	**$ 3,229**	**$ 31,466**	**$ 3,533**	**12.6 %**
Short Term Borrowing	0	1,300	50	4.0
Interfund Borrowing	0	496	496	N/A
Cash Flow Transfer	200	259	(611)	(70)
Trfr from Budget Stabilization Fund	0	276	0	0.0
Total, Revenues	$ 3,429	$ 33,797	$ 3,468	11.4 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	June 2011	FY 2011	Twelve Months Change From Prior Year $	%
By Agency:				
Healthcare and Family Services	$ 465	$ 7,720	$ 963	14.3 %
State Board of Education	796	6,941	(325)	(4.5)
Human Services	202	3,905	(86)	(2.2)
Teachers Retirement	11	298	(656)	(68.8)
Higher Education	37	2,161	(56)	(2.5)
Corrections	98	1,190	28	2.4
Children and Family Services	33	847	2	0.2
Aging	10	644	14	2.2
State Police	28	267	(2)	(0.7)
All Other	199	1,875	213	12.8
Total	$ 1,879	$ 25,848	$ 95	0.4 %
Regular Transfers Out	667	4,847	2,299	90.2
Prior Year Adjustments	(4)	(22)	(6)	37.5
Vouchers Payable Adjustment	528	918	1,870	N/A
Total, Base Expenditures	**$ 3,070**	**$ 31,591**	**$ 4,258**	**15.6 %**
Cash Flow Transfer	200	260	(610)	(70.1)
Transfers to Budget Stabilization Fund	0	276	276	0.0
Transfers to Repay Short-Term Borrowing	61	1,322	(954)	(41.9)
Transfers to Repay Interfund Borrowing	1	9	9	0.0
Total, Expenditures	**$ 3,332**	**$ 33,458**	**$ 2,979**	**9.8 %**

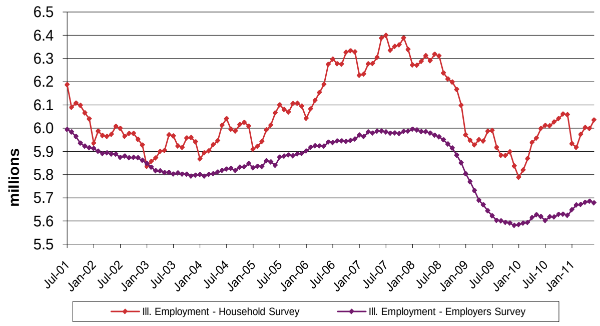
Unemployment Rate Trends



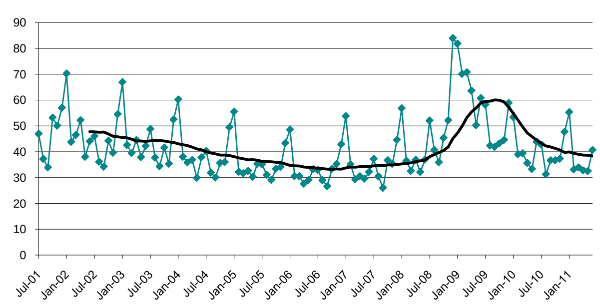
General Funds
End of Month Cash Balances and Payables
June 2011
($ in millions)

	Cash Balance	Payables
General Revenue (001)	$ 7.0	$ 3,798.4
Common School Special Account (005)	84.0	0.0
Education Assistance Fund (007)	357.5	0.0
Common School (412)	20.7	0.0
Total, General Funds	**$ 469.2**	**$ 3,798.4**

Illinois Employment Trends
(millions employed)



New Illinois Unemployment Claims
(Thousands)
& 12 month moving average line



GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	July 2010	July 2011	Change From Prior Year $	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 591	$ 992	$ 401	67.9 %
Corporate	39	51	12	30.8
Total, Income Taxes	$ 630	1,043	$ 413	65.6 %
Sales Taxes	542	606	64	11.8
Other Sources:				
Public Utility Taxes	88	81	(7)	(8.0)
Cigarette Taxes	29	29	0	0.0
Inheritance Tax (gross)	24	2	(22)	(91.7)
Liquor Gallonage Taxes	17	18	1	5.9
Insurance Tax and Fees	4	4	0	0.0
Corporation Franchise Tax and Fees	12	13	1	8.3
Investment Income	1	0	(1)	(100.0)
Cook County IGT	0	0	0	0.0
Other	36	38	2	5.6
Total, Other Sources	$ 211	185	$ (26)	(12.3) %
Total, Cash Receipts	$ 1,383	$ 1,834	$ 451	32.6 %
Transfers In:				
Lottery Fund	$ 43	$ 41	$ (2)	(4.7) %
State Gaming Fund	30	35	5	16.7
Other Funds	99	233	134	135.4
Total, Transfers In	$ 172	$ 309	$ 137	79.7 %
Total, State Sources	$ 1,555	$ 2,143	$ 588	37.8 %
Federal Sources	$ 553	$ 150	$ (403)	(72.9) %
Total Base Revenues	**$ 2,108**	**$ 2,293**	**$ 185**	**8.8 %**
Short Term Borrowing	1,300	0	(1,300)	(100.0)
Transfer from Budget Stabilization Fund	0	275	275	0.0
Total, Revenues	**$ 3,408**	**$ 2,568**	**$ (840)**	**(24.6) %**

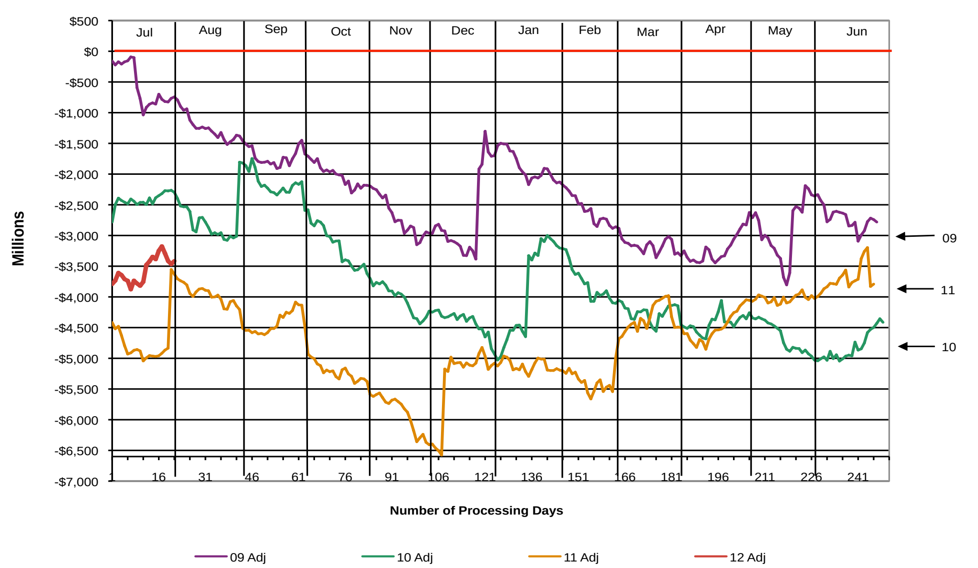
GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	July 2010	July 2011	Change From Prior Year $	%
By Agency				
Healthcare and Family Services	$ 735	572	(163)	(22.2)
State Board of Education	11	66	55	500.0
Human Services	265	281	16	6.0
Teachers Retirement	100	219	119	119.0
Higher Education	125	110	(15)	(12.0)
Corrections	91	101	10	11.0
Children and Family Services	95	90	(5)	(5.3)
Aging	47	27	(20)	(42.6)
State Police	22	16	(6)	(27.3)
All Other	192	327	135	70.3
Total	$ 1,683	$ 1,809	$ 126	7.5 %
Transfers Out	565	473	(92)	(16.3)
Prior Year Adjustments	0	(75)	(75)	0.0
Vouchers Payable Adjustment	1,034	(81)	(1,115)	N/A
Total, Base Expenditures	**$ 3,282**	**$ 2,126**	**$ (1,156)**	**(35.2) %**
Transfers to Repay Budget Stabilization	0	275	275	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	**$ 3,282**	**$ 2,401**	**$ (881)**	**(26.8) %**

General Funds End of Month Cash Balances and Payables July 2011
($ in millions)

	Cash Balance	Payables
General Revenue (001)	$ 63.8	$ 3,479.1
Common School Special Account (005)	184.0	0.0
Education Assistance Fund (007)	355.8	1.4
Common School (412)	32.8	100.4
Total, General Funds	**$ 636.4**	**$ 3,580.9**

Comparison of General Revenue Fund Daily Cash Balances
FY2009 - FY2012 Adjusted to Reflect Unpaid Bills



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DID YOU KNOW?

- Fiscal year 2001 was the last time the State of Illinois had a positive budgetary balance in its General Funds.
- After three years of consecutive declines, Illinois is forecasted to show an improvement in its budgetary balance after final fiscal year 2011 bills are paid.
- Fiscal year 2012 General Funds appropriations total $29.2 billion, including the required contributions to the state's five retirement systems.
- Foregoing the state sales tax on most food, drug and medical appliance purchases reduced Illinois tax revenues by an estimated $1.53 billion in fiscal year 2010.
- Revenues from riverboat gaming have fallen by over 20 percent in the last decade, down to $458 million in fiscal year 2011.