



OFFICE OF THE COMPTROLLER

DANIEL W. HYNES
COMPTROLLER

ROOM 201
STATE HOUSE
SPRINGFIELD, ILLINOIS 62706

June 18, 2007

The Honorable Rod Blagojevich
Illinois State Governor
207 State House
Springfield, Illinois 62706

Dear Governor Blagojevich,

Earlier this month I directed my staff to prepare the enclosed documents both as a precaution and in response to the numerous inquiries our office has received concerning the implications of a delayed FY 08 budget implementation. As legislative staffs have also posed similar questions, I am sharing these materials with your offices. Please do not hesitate to contact my staff should you require any elaboration as to the contents of these reports, which demonstrate the extremely serious consequences of any extended delay in finalizing a budget soon. While I believe that you will find this information useful, I also hope that our preparations for such an eventuality will ultimately be unnecessary.

Sincerely,

A handwritten signature in cursive script that reads "Daniel W. Hynes".

Daniel W. Hynes
Illinois Comptroller

Cc: Michael Madigan-Illinois Speaker of the House
Frank Watson-Illinois State Senate
Emil Jones-Illinois State Senate
Tom Cross-Illinois House of Representatives

To: Comptroller Hynes

From: Rick Cornell, Assistant Comptroller for Fiscal Policy

Re: FY08 Budget Deadlines

Date 6/14/07

You have asked me to prepare a memo answering the question, "at what point does a budget showdown become a fiscal meltdown?" The enclosed documents have been assembled both to address your query and to prepare the IOC for the possibility of a delayed FY08 budget implementation.

The short answer to the question is this: A fiscal meltdown would begin on July 9, and a full-blown crisis would ensue, by any standard, toward the middle of July.

But first, several important notes: Previous court rulings and state law indicate that income support payments to the indigent such as Temporary Assistance to Needy Families, Assistance to the Aged, Blind and Disabled and food stamps can proceed in the absence of a budget. The first batch of such payments of \$4.5 million will go out as scheduled on July 3.

Also, state retirement benefits, state income tax refunds and payments on College Savings Bonds and State of Illinois General Obligation bonds will be paid, regardless whether an FY08 budget has been enacted.

Beyond that, the picture becomes darker.

The following is a partial list of payroll obligations that would be adversely impacted by continued budgetary paralysis.

- If no budget is in place by July 9, the first state payrolls of the new fiscal year will be delayed. An estimated 4900 employees will be impacted.
- After July 16, certain payrolls to the state police, IDOT, CMS, EPA, and SBOE cannot be processed in time to meet scheduled pay days. This affects 8150 employees.
- After July 19, a budget delay will impact another 9300 employees, including Employment Security and Public Health.
- After July 23, another 16,800 employees will be affected, most notably DCFS and Revenue.
- After July 25, Corrections and Human Services payrolls will be delayed, impacting over 28,000 employees.

However, payroll disruptions aside, the primary purpose of state government is to provide services to the citizens of Illinois. Last July, the IOC paid out \$2.050 billion in non-

payroll FY 07 expenditures for a wide range of services to Illinois residents. It cannot be emphasized enough that these expenditures are even more significant to more people in Illinois than state payrolls, but unlike payrolls, it is impossible to assign a specific date at which services are disrupted.

The following are some of those expenditures.

- July is a critical period in the state's efforts to address the backlog of Medicaid payments that build up in the last quarter in the fiscal year. Currently we estimate that DHFS will end this year with a Medicaid backlog of at least \$1.3 billion and payment cycles exceeding 100 days for many providers. (Whatever the published average is, we can assume that significant numbers of providers are at the far end of the scale). Last year a total of \$730 million in Medicaid payments were issued in July, all from the new fiscal year's appropriations. Continued payment delays could exacerbate access to care issues if providers suspend services to recipients.
- The first of numerous DHFS pressure points occurs by July 6, when the agency would ordinarily "expedite" payments to selected hospitals, nursing homes, and other providers as well as meet administration commitments to physicians participating in the "ALL KIDS" program. DHFS has effectively exhausted spending authority for FY07 and may not have enough appropriations sufficient for the \$60-70 million a week necessary to meet its commitments and to fund those providers dependent on the weekly program designed to fund financially at risk vendors.
- Last July, \$270 million was paid out in DHS grants, the bulk of which went to critical social services and to many vendors considered financially stressed.
- By mid-July last year, the state's foster care parents and institutional care providers received \$25 million in grants from new fiscal year appropriations. Any delay will likely create significant hardship.
- Over \$100 million was paid out in last July to school districts in the form of categorical grants.
- At least \$193 million in IDOT payments were made last July. The middle of summer is obviously a crucial period in road construction. The continuity of many projects is at risk.

In closing, I sincerely hope that our preparation for this situation is an exercise in prudence only.