

# Comptroller's Quarterly

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## FISCAL POSITION CONTINUES DOWNWARD SLIDE

Through the first half of fiscal year 2010, the state's cash flow position continued to deteriorate with the backlog of bills continuing to reach unprecedented levels. At the end of December, the backlog of unpaid bills from the General Funds in the Comptroller's Office stood at \$5.12 billion while at this time last year payables totaled \$1.844 billion. Just as important, the delay in paying vouchers was 92 business days at the end of December compared to 48 days at this time last year. Transfers to other state funds from the General Funds were delayed 122 business days at the end of December. Both the backlog and the number of days delayed are record highs.

In tandem with these record backlogs, beginning in March the state must repay \$2.25 billion plus interest in short-term loans that were issued to address fiscal year 2009 bills. Last fiscal year, \$1.4 billion plus interest was outstanding at this time of year and repayable by the end of the fiscal year in June of 2009. Taken together, the \$3.276 billion increase in payables along with the additional \$850 million in short-term borrowing obligation reflects a decline of more than \$4.1 billion in the state's cash flow position over the past year.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on December 31, 2009 to be a negative \$5.029 billion. This is the lowest adjusted balance in history and throughout the first six months the adjusted balances have been consistently lower than previous years by a large amount. Major factors in the decline of the cash flow position include continued weakness in the state's economy-driven revenues, a structural imbalance in the enacted fiscal year 2010 budget, and the failure to address the deficit in the fiscal year 2009 budget resulting in over \$3.9 billion in fiscal year 2010 revenues expended for last year's bills.

Agency spending through December was up 2.2% due in part to an increase in lapse period spending. Base spending declined by 2.3% through the first half of the fiscal year due to a decrease in transfers out and a decline in Medicaid vouchers presented for payment.

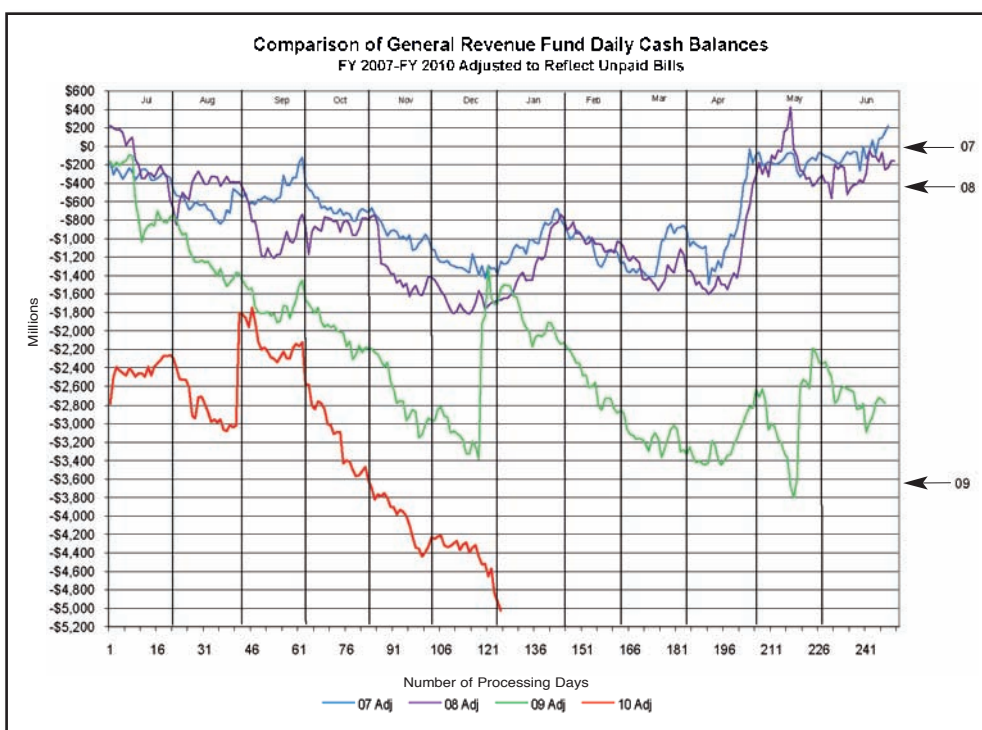
While base revenues decreased 1.8% in the first half of fiscal year 2010, it is the further declines in economy-driven revenue sources that continue to threaten the state's financial stability. Even though there is evidence of improving economic conditions nationally, state corporate income tax receipts were down 16.3%, sales tax receipts decreased \$460 million or 12.6%, and individual income tax receipts fell \$315 million or 7.6%. Federal revenues tied to the American Recovery and Reinvestment Act of 2009 was essentially the only strong revenue source and these receipts were dependent on timely state Medicaid disbursements.

### Base Revenues

At the end of December, fiscal year 2010 base revenues had decreased \$229 million or 1.8% for a total of \$12.713 billion. State sources of revenue were down \$746 million or 7.0% while federal sources increased \$517 million (22.1%) which includes \$551 million from the federal stimulus program. At the end of December, income taxes had decreased \$415 million with individual income taxes down \$315 million (7.6%) while corporate income taxes declined \$100 million (16.3%) compared to the first half of last year.

With the recession continuing to impact economy-driven revenues, sales tax receipts decreased \$460 million or 12.6%.

Cash receipts from other sources decreased \$84 million or 5.6% due primarily to the expected declines in investment income (down \$18 million or 54.5%), inheritance tax receipts (down



\$28 million or 19.4%), Cook County IGT (down \$9 million), liquor taxes (down \$7 million or 8.4%), and public utility taxes (down \$42 million or 7.5%). The only state sources of revenue to increase for the year so far were insurance taxes (up \$18 million) and corporate franchise tax and fees (up \$1 million).

Transfers in from other state funds for the first half of the fiscal year increased by \$213 million. State Gaming Fund transfers are down \$8 million while Lottery Fund transfers were the same as last year. All other transfers increased \$221 million primarily due to fiscal year 2010 fund sweeps legislation leading to transfers of \$161 million.

Federal sources of revenue increased \$517 million or 22.1%, due to the federal stimulus legislation which generated \$551 million in the first half of fiscal year 2010.

## Base Expenditures

In prior years' quarterly reports, comparative analysis has been utilized between categories of spending such as awards and grants and operations. Major agencies or groups of agencies' spending were compared by category. However, due to the manner in which the budget was appropriated, that level of detail is incomparable to previous fiscal years and this report instead will present comparisons based on agency spending.

Through December, base General Funds spending declined by \$335 million or 2.3%. For the month of December base spending was down \$1.632 billion due primarily to the \$1.4 billion that was borrowed for cash flow purposes in December 2008.

Through six months of fiscal year 2010, Healthcare and Family Services had the largest drop in vouchers presented for payment among the major agencies of \$274 million or 6.6%. State Board of Education was down \$137 million or 3.9%, Human Services was down \$92 million or 4.1%, Corrections was down \$36 million or 5.5% and Children and Family Services was down \$31 million or 5.9%.

Increased spending occurred for Teachers

Retirement System(TRS) (up \$304 million or 38.0%), Higher Education (up \$176 million or 12.6%), State Police (up \$66 million or 84.6%), Aging (up \$55 million or 20.9%), and all other (up \$297 million or 31.1%). TRS and Higher Education increases are tied to increases in certified pension funding levels by the state's five retirement systems while the State Police are now paid primarily from GRF versus the Road Fund.

Transfers out for the first three months of fiscal year 2010 declined by \$259 million or 19.2%.

## What Lies Ahead

As Illinois enters the third quarter of fiscal year 2010, the state must prepare to confront the most dangerous fiscal conditions in modern history. In addition to the more than \$5.1 billion in unpaid bills in the Comptroller's Office, the Department of Healthcare and Family Services has not yet submitted an estimated \$1.4 billion in additional Medicaid and Group Health Insurance obligations. Combined with \$2.25 billion in loan repayments plus interest, the largest short-term borrowing issuance in Illinois' history, the state has an effective bill backlog of over \$8.75 billion.

August of last year. As bond rating agencies continue to downgrade Illinois' rankings to among the lowest in the nation, the state cannot further jeopardize its financial status by assuming additional unplanned debt payable this year or by delaying or defaulting on the existing loan repayment which must be completed on five specific dates between March 23rd and June 10th of 2010.

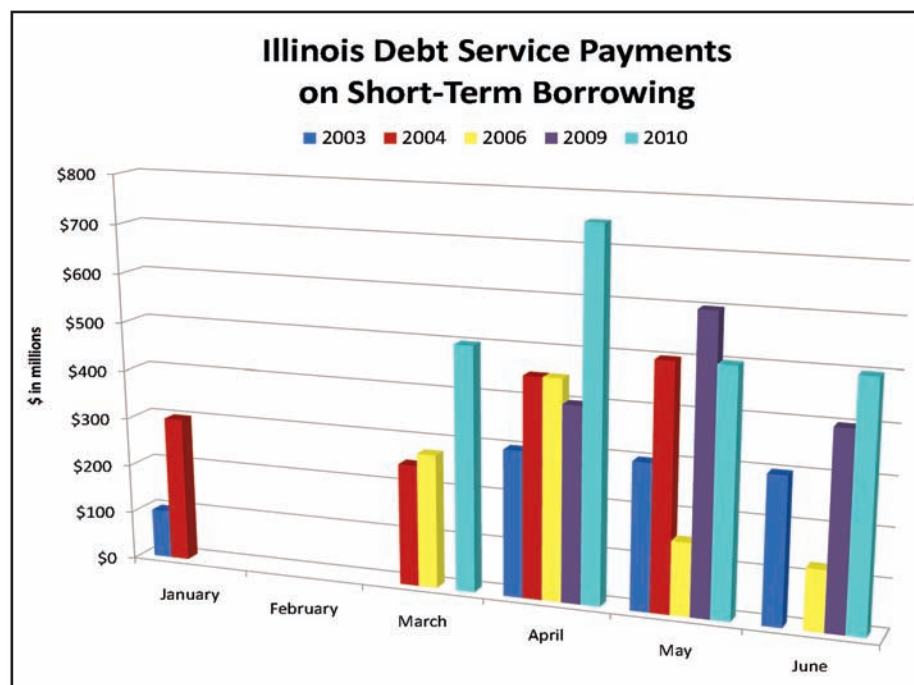
However, the backlog of unpaid bills will continue to grow as the debt is repaid. The state's ability to maintain even limited payment activity for essential and prioritized service, already strained, will be severely compromised. Absent major changes in the revenue and spending patterns represented by the current budget structure, Illinois will enter fiscal year 2011 with the largest amount of unpaid bills from the prior year in its history.

As predicted in the previous quarterly report, social service organizations in Illinois, and those elements of the healthcare provider community not covered by federal stimulus mandated payment deadlines, are suffering greatly from prolonged payment delays and many entities' ability to continue the delivery of vital services is problematic. Record payment

delays also threaten categorical grants to school districts and other educational grant recipients including pre-school programs, as these obligations now represent over \$1 billion of the backlog. Universities and community colleges are collectively now owed in excess of \$775 million and payments to local governments and transit districts total over \$478 million.

Unless the Governor and the General Assembly are prepared to take meaningful action to address these conditions in the near future, the

erosion of the public services sector will continue. The financial damage already inflicted on the social service and healthcare infrastructure threatens to become permanent as organizations serving children, seniors and the disabled, close their doors or drastically curtail programs designed to address the most critical needs of Illinois' most vulnerable populations. ■



Although an influx of pension bond related revenues in the middle of January will reduce both the size of the backlog and the length of payment delays, that impact will only be marginal and temporary. Beginning in February or earlier, significant portions of incoming revenues must be allocated to meet the mandated debt service payments associated with the \$2.25 billion in short-term loans taken out in May and

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2008	2009		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 109	\$ 151	\$ 42	\$ 141	\$ 280	\$ 139	98.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 765	\$ 755	\$ (10)	\$ 4,119	\$ 3,804	\$ (315)	(7.6) %
Corporate	190	188	(2)	613	513	(100)	(16.3)
Total, Income Taxes	955	943	(12)	4,732	4,317	(415)	(8.8)
Sales Taxes	646	574	(72)	3,645	3,185	(460)	(12.6)
Other Sources:							
Public Utility Taxes	106	121	15	559	517	(42)	(7.5)
Cigarette Taxes	29	29	0	175	175	0	0.0
Inheritance Tax (gross)	32	29	(3)	144	116	(28)	(19.4)
Liquor Gallonage Taxes	12	8	(4)	83	76	(7)	(8.4)
Insurance Tax and Fees	58	65	7	139	157	18	12.9
Corporation Franchise Tax and Fees	15	19	4	106	107	1	0.9
Investment Income	2	0	(2)	33	15	(18)	(54.5)
Cook County IGT	0	0	0	65	56	(9)	(13.8)
Other	29	35	6	197	198	1	0.5
Total, Other Sources	283	306	23	1,501	1,417	(84)	(5.6)
Total, Cash Receipts	\$ 1,884	\$ 1,823	\$ (61)	\$ 9,878	\$ 8,919	\$ (959)	(9.7) %
Transfers In:							
Lottery Fund	\$ 60	\$ 60	\$ 0	\$ 294	\$ 294	\$ 0	0.0 %
State Gaming Fund	20	42	22	250	242	(8)	(3.2)
Other Funds	20	99	79	177	398	221	124.9
Total, Transfers In	\$ 100	\$ 201	\$ 101	\$ 721	\$ 934	\$ 213	29.5 %
Total, State Sources	\$ 1,984	\$ 2,024	\$ 40	\$ 10,599	\$ 9,853	\$ (746)	(7.0) %
Federal Sources	\$ 612	\$ 393	\$ (219)	\$ 2,343	\$ 2,860	\$ 517	22.1 %
<b>Total, Base Revenues</b>	<b>\$ 2,596</b>	<b>\$ 2,417</b>	<b>\$ (179)</b>	<b>\$ 12,942</b>	<b>\$ 12,713</b>	<b>\$ (229)</b>	<b>(1.8) %</b>
Short Term Borrowing	1,400	0	(1,400)	1,400	1,250	(150)	(10.7)
Cash Flow Transfer	0	70	70	0	240	240	0.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 3,996	\$ 2,487	\$ (1,509)	\$ 14,618	\$ 14,479	\$ (139)	(1.0) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 452	\$ 698	\$ 246	\$ 4,134	\$ 3,860	\$ (274)	(6.6) %
State Board of Education	843	803	(40)	3,537	3,400	(137)	(3.9)
Human Services	354	335	(19)	2,269	2,177	(92)	(4.1)
Teachers Retirement	133	184	51	801	1,105	304	38.0
Higher Education	240	247	7	1,392	1,568	176	12.6
Corrections	100	99	(1)	649	613	(36)	(5.5)
Children and Family Services	86	81	(5)	522	491	(31)	(5.9)
Aging	53	63	10	263	318	55	20.9
State Police	13	29	16	78	144	66	84.6
All Other	169	222	53	956	1,253	297	31.1
Total	\$ 2,443	\$ 2,761	\$ 318	\$ 14,601	\$ 14,929	\$ 328	2.2 %
Regular Transfers Out	374	165	(209)	1,350	1,091	(259)	(19.2)
Prior Year Adjustments	(2)	(4)	(2)	(9)	(11)	(2)	22.2
Vouchers Payable Adjustment	1,075	(664)	(1,739)	(1,398)	(1,800)	(402)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 3,890</b>	<b>\$ 2,258</b>	<b>\$ (1,632)</b>	<b>\$ 14,544</b>	<b>\$ 14,209</b>	<b>\$ (335)</b>	<b>(2.3) %</b>
Cash Flow Transfer	0	230	230	0	400	400	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,890	2,488	(1,402)	14,544	14,609	65	0.4
AVAILABLE CASH BALANCE, ENDING	\$ 215	\$ 150	\$ (65)	\$ 215	\$ 150	\$ (65)	(30.2) %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2008	2009		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 28	\$ 44	\$ 16	\$ 48	\$ 4	\$ (44)	(91.7) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 709	\$ 700	\$ (9)	\$ 3,818	\$ 3,527	\$ (291)	(7.6) %
Corporate	177	174	(3)	568	475	(93)	(16.4)
Total, Income Taxes	886	874	(12)	4,386	4,002	(384)	(8.8)
Sales Taxes	483	429	(54)	2,729	2,380	(349)	(12.8)
Other Sources:							
Public Utility Taxes	96	110	14	502	464	(38)	(7.6)
Cigarette Taxes	15	15	0	89	89	0	0.0
Inheritance Tax (gross)	32	29	(3)	144	116	(28)	(19.4)
Liquor Gallonage Taxes	12	8	(4)	83	76	(7)	(8.4)
Insurance Tax and Fees	58	65	7	139	157	18	12.9
Corporation Franchise							
Tax and Fees	15	19	4	106	107	1	0.9
Investment Income	1	0	(1)	33	15	(18)	(54.5)
Cook County IGT	0	0	0	65	56	(9)	(13.8)
Other	29	35	6	195	196	1	0.5
Total, Other Sources	258	281	23	1,356	1,276	(80)	(5.9)
Total, Cash Receipts	\$ 1,627	\$ 1,584	\$ (43)	\$ 8,471	\$ 7,658	\$ (813)	(9.6) %
Transfers In	20	98	78	177	396	219	123.7
Total, State Sources	\$ 1,647	\$ 1,682	\$ 35	\$ 8,648	\$ 8,054	\$ (594)	(6.9) %
Federal Sources	\$ 612	\$ 393	\$ (219)	\$ 2,343	\$ 2,860	\$ 517	22.1 %
<b>Total, Base Revenues</b>	<b>\$ 2,259</b>	<b>\$ 2,075</b>	<b>\$ (184)</b>	<b>\$ 10,991</b>	<b>\$ 10,914</b>	<b>\$ (77)</b>	<b>(0.7) %</b>
Short Term Borrowing	1,400	0	(1,400)	1,400	1,250	(150)	(10.7)
Cash Flow Transfer	0	70	70	0	240	240	0.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 3,659	\$ 2,145	\$ (1,514)	\$ 12,667	\$ 12,680	\$ 13	0.1 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 452	\$ 698	246	\$ 4,134	3,860	(274)	(6.6)
State Board of Education	421	385	(36)	1,293	1,584	291	22.5
Human Services	354	335	(19)	2,269	2,177	(92)	(4.1)
Higher Education	224	247	23	1,193	1,466	273	22.9
Corrections	100	99	(1)	649	613	(36)	(5.5)
Children and Family Services	86	81	(5)	522	491	(31)	(5.9)
Aging	53	63	10	263	318	55	20.9
State Police	13	29	16	78	144	66	84.6
All Other	170	222	52	961	1,256	295	30.7
Total	\$ 1,873	\$ 2,159	\$ 286	\$ 11,362	\$ 11,909	\$ 547	4.8 %
Regular Transfers Out	690	404	(286)	2,626	1,910	(716)	(27.3)
Prior Year Adjustments	(3)	(3)	0	(9)	(10)	(1)	11.1
Vouchers Payable Adjustment	1,044	(609)	(1,653)	(1,347)	(1,533)	(186)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 3,604</b>	<b>\$ 1,951</b>	<b>\$ (1,653)</b>	<b>\$ 12,632</b>	<b>\$ 12,276</b>	<b>\$ (356)</b>	<b>(2.8) %</b>
Cash Flow Transfer	0	230	230	0	400	400	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,604	2,181	(1,423)	12,632	12,676	44	0.3
AVAILABLE CASH BALANCE, ENDING	\$ 83	\$ 8	\$ (75)	\$ 83	\$ 8	\$ (75)	(90.4) %