

# Comptroller's Quarterly

DANIEL W. HYNES, COMPTROLLER

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## FISCAL PROBLEMS WORSEN SIGNIFICANTLY AS FY 2010 ENDS

Throughout fiscal year 2010, both the state's financial condition and cash flow position continued to deteriorate rapidly, as spending pressures were left largely unabated and as the recession continued to impact state revenues. Illinois ended the year in the worst fiscal position in its history. At the end of June, the backlog of unpaid bills and fund transfers in the Illinois Office of the Comptroller (IOC) stood at \$4.712 billion. This compares to last year's end of year payables of \$2.785 billion. Just as important, the delay in paying vouchers was 153 working days this June compared to 99 days at this time last year. Some transfers to other state funds have been delayed for the entire fiscal year and the state was unable to transfer \$276 million back to the Budget Stabilization Fund on June 30th. Both the amount payable and the days delayed are record highs.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on June 30, 2010 to be a negative \$4.692 billion. This is the lowest end of year balance on the chart and will be the lowest budgetary balance in history after accounting for spending in the state's lapse period. A few factors have had a major impact on the cash flow position – the state's economy-driven revenues weakened and spending was transferred to other funds in the fourth quarter.

Although the backlog of bills is historically high, this is a modest improvement from what was anticipated at the end of the third quarter. This is due primarily to the transfer of approximately \$1.8 billion in Medicaid spending from GRF to the Healthcare Provider Relief Fund and Tobacco Settlement Recovery Fund, a reallocation of over \$300

million in State Board of Education quarterly grant payments from the GRF to the Education Assistance Fund, and marginally better revenue collections in the fourth quarter than originally projected. However, nearly \$2.6 billion in fiscal year 2010 General Funds appropriations remain unexpended and a large portion of that may be submitted for payment in the next two months for remaining fiscal year 2010 obligations.

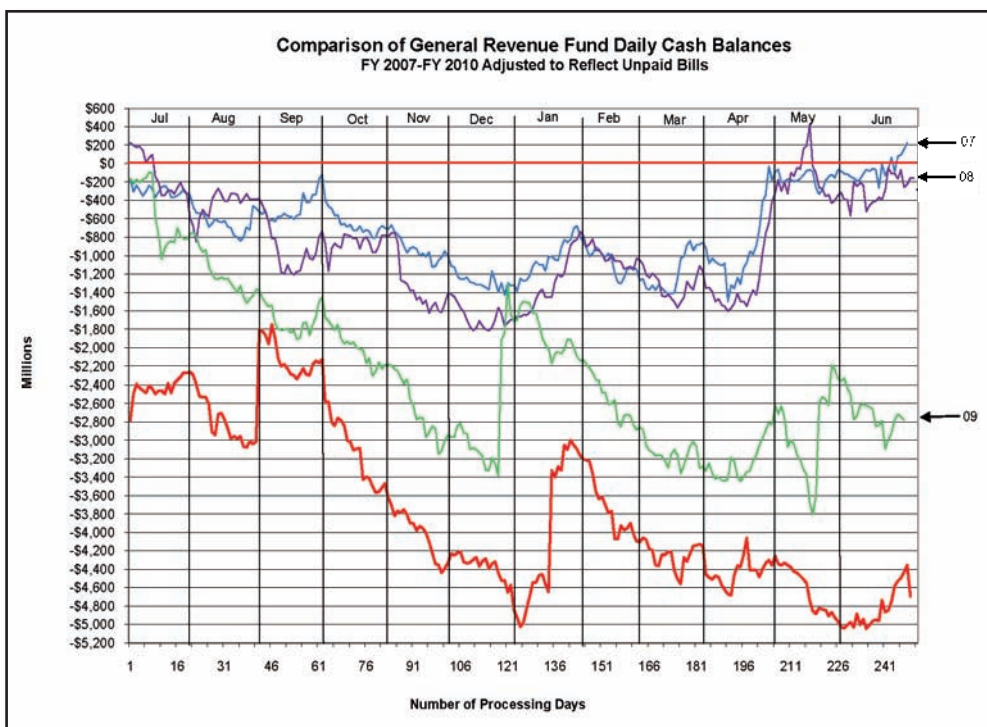
Base spending for the year was down 8.8% due to the backlog of payables, the decline in pension payments due to the borrowing this year for these payments, and the transfer of Medicaid spending to other funds.

While base revenues decreased 4.2% in fiscal year 2010, it is the decline in economic rev-

enue sources that greatly impacted the IOC's ability to pay the state's bills. Corporate income tax receipts were down 20.5%, sales tax receipts have decreased \$465 million or 6.9%, and individual income tax receipts fell \$712 million or 7.7%. These declines were partially offset by transfers into the General Funds. With the failure in economy-driven revenues, the Governor has proposed a \$1.3 billion "revenue failure" short-term borrowing for late July.

### Base Revenues

At the end of fiscal year 2010, base revenues decreased \$1.211 billion or 4.2% for a total of \$27.933 billion. State sources of revenue were down \$564 million or 2.5% while federal sources decreased \$647 million (9.9%) to



\$5.920 billion which includes \$1.607 billion from the federal stimulus program. At the end of year, income taxes had decreased \$1.062 billion with individual income taxes down \$712 million (7.7%) while corporate income taxes declined \$350 million (20.5%). With the recession impacting consumers, sales tax receipts decreased \$465 million or 6.9%.

Cash receipts from other sources decreased \$123 million or 3.8% due primarily to the expected declines in investment income (down \$55 million or 67.9%), inheritance tax receipts (down \$45 million or 15.6%), Cook County IGT (down \$9 million), and insurance taxes (down \$12 million). Public utility taxes declined \$79 million due to decreases of \$44 million in telecommunications tax receipts, \$13 million in gas tax receipts, and \$22 million in electric tax receipts.

For fiscal year 2010, transfers in increased by \$1.086 billion. State Gaming Fund transfers are down \$47 million while Lottery Fund transfers were unchanged. All other transfers increased primarily due to the \$835 million transferred from the Pension Contribution Fund in January for a repayment of pension payments made during the first half of the fiscal year. Also legislated transfers of \$283 million from fund sweeps and \$110 million from the Capital Projects Fund (to cover a portion of the cost of moving two state agencies to GRF from the Road Fund) contributed to the increase in transfers in.

Federal sources of revenue decreased \$647 million or 9.9%, primarily due to the allocation of Medicaid spending (and its resulting federal reimbursements) in the last quarter to the Healthcare Provider Relief Fund. The federal stimulus plan generated \$1.607 billion in fiscal year 2010, an increase of \$41 million from last year.

## 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 this year's budget was appropriated, that level of detail is incomparable to previous fiscal years and this report instead will present comparisons by individual agencies.

Through June, base General Funds spending declined by \$2.648 billion or 8.8% when compared to the previous year. For the last quarter of the fiscal year, base spending declined by \$3.178 billion. Total agency vouchers presented for payment were down \$3.634 billion and the adjustment in vouchers payable was up \$1.440 billion while regular transfers out were down \$451 million.

Only the Departments of Aging (up \$84 million or 15.4%) and State Police (up \$54 million or 25.1%) showed increases in vouchers presented among major agencies. The increase to the State Police is due to a funding shift away from the Road Fund to GRF.

Remaining General Funds appropriations along with budgeted decreased appropriations to the Department of Healthcare and Family Services (DHFS) explain a good portion of the decline in both total agency and DHFS spending. In addition to an initial \$712 million or 8.5% decrease in appropriations in fiscal year 2010, \$1.562 billion remains unspent by DHFS heading into the lapse period. For cash flow purposes, a conscious effort was made to steer away Medicaid spending from GRF in the fourth quarter of the fiscal year and utilize the Tobacco Settlement and Health Care Provider Relief funds. Through June, DHFS' General Funds spending is down \$2.395 billion or 26.2% from last year and accounts for 65.9% of the total decrease in vouchers presented for all agencies. In the fourth quarter alone, Healthcare and Family Services spending was down \$2.201 billion.

Other major agencies which had a large drop in vouchers presented for payment include the Teachers Retirement System (down \$648 million or 40.4% due to the sale of state general obligation pension bonds), Higher Education (down \$182 million or 7.6%), the Department of Human Services (down \$128 million or 3.1%), Corrections (down \$127 million or 9.9%), State Board of Education (down \$112 million or 1.5%) and Children and Family Services (down \$53 million or 5.9%).

## What Lies Ahead

Following the close of a fiscal year, traditionally the state has until August 31st, the "lapse period," during which it can pay the bills from the prior fiscal year's appropriations. These bills may be the unpaid bills on June

30th or any other bills forwarded to the IOC in July and August to pay for expenses incurred prior to the end of the year. However, the amount of money required to pay for fiscal year 2010's obligations will be at an unprecedented level – perhaps approaching \$6 billion depending on state agency submissions – and Illinois would be unable to pay all of these obligations by the end of August in almost any scenario. In light of this, Public Act 96-958 extends the state's lapse period through the end of December 2010. All vouchers must be filed with IOC by the end of August, but the state will now have until the end of December 2010 to pay down these liabilities.

Several revenue events will have to occur in the coming months for fiscal year 2010 lapse period spending to be completed by December 31st. These include the \$1.3 billion revenue failure borrowing proposed by the Governor, newly authorized borrowing by the GRF from other funds in the state's treasury, and securitization of the state's tobacco settlement payments that is expected to garner \$1.2 billion. The precise timing of these events is uncertain, but they are essential for the state to meet its fiscal year 2010 obligations.

However, even with the extension of the state's lapse period and these revenue events, it will be extremely challenging to close out fiscal year 2010 and maintain key functions of state government. Other than payments for mandated debt service on state bonds, general state aid to education, federal stimulus related Medicaid and critical state operations, an extremely limited amount of fiscal year 2011's obligations are likely to be addressed in calendar year 2010 while the state is still dealing with the prior fiscal year's bills.

As a large portion of the fiscal year 2011 revenues must be set aside to pay the prior year's bills, payment delays over the course of the next year are likely to be even more prolonged than what was seen in fiscal year 2010. Even with a reasonable economic revenue performance and the revenue events mentioned above, absent any significant changes to the current budget plan either through reserves, appropriation reductions, pension bonding or major revenue enhancements, the state will likely end fiscal year 2011 with a GRF bill backlog significantly higher than that at the end of fiscal year 2010. ■

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2009	2010		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 242	\$ 153	\$ (89)	\$ 141	\$ 280	\$ 139	98.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 765	\$ 751	\$ (14)	\$ 9,223	\$ 8,511	\$ (712)	(7.7) %
Corporate	154	211	57	1,710	1,360	(350)	(20.5)
Total, Income Taxes	919	962	43	10,933	9,871	(1,062)	(9.7)
Sales Taxes	573	562	(11)	6,773	6,308	(465)	(6.9)
Other Sources:							
Public Utility Taxes	76	95	19	1,168	1,089	(79)	(6.8)
Cigarette Taxes	29	29	0	350	355	5	1.4
Inheritance Tax (gross)	34	35	1	288	243	(45)	(15.6)
Liquor Gallonage Taxes	13	14	1	158	159	1	0.6
Insurance Tax and Fees	61	64	3	334	322	(12)	(3.6)
Corporation Franchise Tax and Fees	17	18	1	201	208	7	3.5
Investment Income	10	2	(8)	81	26	(55)	(67.9)
Cook County IGT	0	0	0	253	244	(9)	(3.6)
Other	63	77	14	445	509	64	14.4
Total, Other Sources	303	334	31	3,278	3,155	(123)	(3.8)
Total, Cash Receipts	\$ 1,795	\$ 1,858	\$ 63	\$ 20,984	\$ 19,334	\$ (1,650)	(7.9) %
Transfers In:							
Lottery Fund	\$ 66	\$ 66	\$ 0	\$ 625	\$ 625	\$ 0	0.0 %
State Gaming Fund	30	35	5	430	383	(47)	(10.9)
Other Funds	185	103	(82)	538	1,671	1,133	210.6
Total, Transfers In	\$ 281	\$ 204	\$ (77)	\$ 1,593	\$ 2,679	\$ 1,086	68.2 %
Total, State Sources	\$ 2,076	\$ 2,062	\$ (14)	\$ 22,577	\$ 22,013	\$ (564)	(2.5) %
Federal Sources	\$ 836	\$ 262	\$ (574)	\$ 6,567	\$ 5,920	\$ (647)	(9.9) %
<b>Total, Base Revenues</b>	<b>\$ 2,912</b>	<b>\$ 2,324</b>	<b>\$ (588)</b>	<b>\$ 29,144</b>	<b>\$ 27,933</b>	<b>\$ (1,211)</b>	<b>(4.2) %</b>
Short Term Borrowing	0	0	0	2,400	1,250	(1,150)	(47.9)
Cash Flow Transfer	50	275	225	300	870	570	190.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,962	\$ 2,599	\$ (363)	\$ 32,120	\$ 30,329	\$ (1,791)	(5.6) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 998	\$ 70	\$ (928)	\$ 9,152	\$ 6,757	\$ (2,395)	(26.2) %
State Board of Education	822	511	(311)	7,378	7,266	(112)	(1.5)
Human Services	235	258	23	4,119	3,991	(128)	(3.1)
Teachers Retirement	133	10	(123)	1,602	954	(648)	(40.4)
Higher Education	49	14	(35)	2,399	2,217	(182)	(7.6)
Corrections	97	86	(11)	1,289	1,162	(127)	(9.9)
Children and Family Services	59	47	(12)	898	845	(53)	(5.9)
Aging	26	64	38	546	630	84	15.4
State Police	34	20	(14)	215	269	54	25.1
All Other	136	168	32	1,789	1,662	(127)	(7.1)
Total	\$ 2,589	\$ 1,248	\$ (1,341)	\$ 29,387	\$ 25,753	\$ (3,634)	(12.4) %
Regular Transfers Out	391	412	21	2,999	2,548	(451)	(15.0)
Prior Year Adjustments	0	0	0	(13)	(16)	(3)	23.1
Vouchers Payable Adjustment	(688)	737	1,425	(2,392)	(952)	1,440	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,292</b>	<b>\$ 2,397</b>	<b>\$ 105</b>	<b>\$ 29,981</b>	<b>\$ 27,333</b>	<b>\$ (2,648)</b>	<b>(8.8) %</b>
Cash Flow Transfer	50	0	(50)	300	870	570	190.0
Transfers to Repay Short-Term Borrowing	582	225	(357)	1,700	2,276	576	33.9
Total, Expenditures	2,924	2,622	(302)	31,981	30,479	(1,502)	(4.7)
AVAILABLE CASH BALANCE, ENDING	\$ 280	\$ 130	\$ (150)	\$ 280	\$ 130	\$ (150)	(53.6) %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2009	2010		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 10	\$ 3	\$ (7)	\$ 48	\$ 4	\$ (44)	(91.7) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 709	\$ 695	\$ (14)	\$ 8,550	\$ 7,889	\$ (661)	(7.7) %
Corporate	143	196	53	1,585	1,261	(324)	(20.4)
Total, Income Taxes	852	891	39	10,135	9,150	(985)	(9.7)
Sales Taxes	430	422	(8)	5,074	4,720	(354)	(7.0)
Other Sources:							
Public Utility Taxes	67	86	19	1,054	984	(70)	(6.6)
Cigarette Taxes	15	20	5	179	237	58	32.4
Inheritance Tax (gross)	34	35	1	288	243	(45)	(15.6)
Liquor Gallonage Taxes	13	14	1	158	159	1	0.6
Insurance Tax and Fees	61	64	3	334	322	(12)	(3.6)
Corporation Franchise							
Tax and Fees	17	18	1	201	208	7	3.5
Investment Income	10	2	(8)	80	26	(54)	(67.5)
Cook County IGT	0	0	0	253	244	(9)	(3.6)
Other	63	77	14	441	505	64	14.5
Total, Other Sources	280	316	36	2,988	2,928	(60)	(2.0)
Total, Cash Receipts	\$ 1,562	\$ 1,629	\$ 67	\$ 18,197	\$ 16,798	\$ (1,399)	(7.7) %
Transfers In	185	103	(82)	537	835	298	55.5
Total, State Sources	\$ 1,747	\$ 1,732	\$ (15)	\$ 18,734	\$ 17,633	\$ (1,101)	(5.9) %
Federal Sources	\$ 836	\$ 262	\$ (574)	\$ 6,567	\$ 5,920	\$ (647)	(9.9) %
<b>Total, Base Revenues</b>	<b>\$ 2,583</b>	<b>\$ 1,994</b>	<b>\$ (589)</b>	<b>\$ 25,301</b>	<b>\$ 23,553</b>	<b>\$ (1,748)</b>	<b>(6.9) %</b>
Short Term Borrowing	0	0	0	2,400	1,250	(1,150)	(47.9)
Cash Flow Transfer	50	275	225	300	870	570	190.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,633	\$ 2,269	\$ (364)	\$ 28,277	\$ 25,949	\$ (2,328)	(8.2) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 998	\$ 70	(928)	\$ 9,152	6,757	(2,395)	(26.2)
State Board of Education	709	111	(598)	3,477	3,200	(277)	(8.0)
Human Services	235	258	23	4,119	3,991	(128)	(3.1)
Higher Education	10	13	3	1,845	2,021	176	9.5
Corrections	97	86	(11)	1,289	1,162	(127)	(9.9)
Children and Family Services	59	47	(12)	898	845	(53)	(5.9)
Aging	26	64	38	547	630	83	15.2
State Police	34	20	(14)	215	269	54	25.1
All Other	137	169	32	1,799	1,668	(131)	(7.3)
Total	\$ 2,305	\$ 838	\$ (1,467)	\$ 23,341	\$ 20,543	\$ (2,798)	(12.0) %
Regular Transfers Out	391	629	238	5,385	3,152	(2,233)	(41.5)
Prior Year Adjustments	(1)	(1)	0	(13)	(16)	(3)	23.1
Vouchers Payable Adjustment	(688)	561	1,249	(2,392)	(892)	1,500	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,007</b>	<b>\$ 2,027</b>	<b>\$ 20</b>	<b>\$ 26,321</b>	<b>\$ 22,787</b>	<b>\$ (3,534)</b>	<b>(13.4) %</b>
Cash Flow Transfer	50	0	(50)	300	870	570	190.0
Transfers to Repay Short-Term Borrowing	582	225	(357)	1,700	2,276	576	33.9
Total, Expenditures	2,639	2,252	(387)	28,321	25,933	(2,388)	(8.4)
AVAILABLE CASH BALANCE, ENDING	\$ 4	\$ 20	\$ 16	\$ 4	\$ 20	\$ 16	400.0 %