

# Comptroller's Quarterly

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## BACKLOG SETS DECEMBER RECORD FOR UNPAID BILLS

Through the first half of fiscal year 2008, the state's cash flow position continued to deteriorate. At the end of December, the backlog of unpaid bills in the Comptroller's Office stood at \$1.720 billion although the office began the year holding no bills. This time last year payables totaled \$1.336 billion. Just as significantly, the delay in paying bills was 34 business days as of December 31st, compared to only 22 days at this time last year. Both the backlog volume and the number of days delayed represent record levels for the mid-point of the fiscal year.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on December 31, 2007 to be a negative \$1.666 billion. This is the lowest end of December balance since the state began its current cycle of negative balances in fiscal year 2001. Throughout the first six months of fiscal year 2008, the adjusted balances have been consistently lower than in previous years. The exception was in November 2005 where the large decline was due to a planned build-up in Medicaid vouchers prior to a short-term borrowing. A few factors have had a major impact on the state's cash flow position – Medicaid spending was accelerated in the first quarter, two of the state's economy driven revenues are weakening, and past years' legislated transfers into the General Revenue Fund were not repeated for fiscal year 2008.

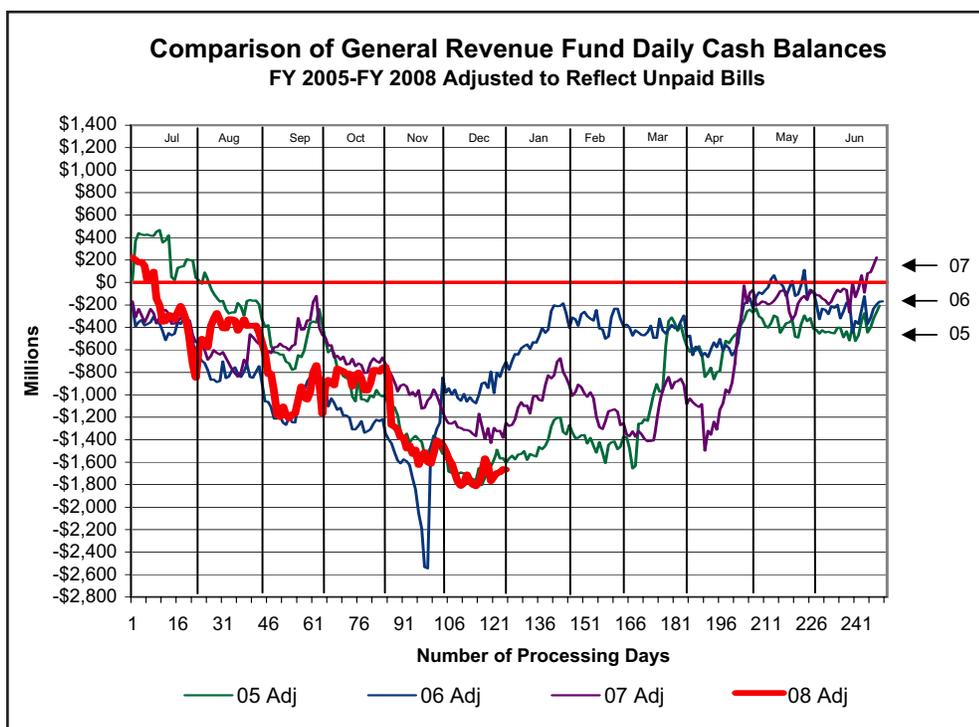
Base spending through December was up 3.5%. This growth was due to an 8.7% increase in Medicaid spending, a 37.1% increase in teachers' retirement grants, and

growth of 8.5% in operations spending which includes increased retirement contributions.

While base revenues have increased 4.5% in the first half of fiscal year 2008, corporate income tax receipts were down and sales tax receipts have posted a meager growth of 0.8%. Revenues from transfers from other funds have fallen off as the authority for administrative chargebacks ended with fiscal year 2007 and there were no sweeps of surplus monies from other funds legislated this year. The 8.1% growth in individual income tax receipts and increased federal reimbursements accounted for most of the growth in base revenues.

### Base Revenues

At the end of the second quarter of fiscal year 2008, base revenues increased \$574 million or 4.5% for a total of \$13.419 billion. State sources of revenue were up \$368 million or 3.4 % while federal sources increased \$206 million (9.5%). The growth in income taxes that began years ago continued through the first half of this year for individual income taxes. At the end of December, income taxes had increased \$268 million or 6.0% with individual income taxes up \$305 million (8.1%) while corporate income taxes declined \$37 million (5.5%).



Although economy driven revenues generally lead the way, sales tax receipts growth has slowed as receipts are up only \$31 million or 0.8%. A misallocation of receipts last year and a correction which raised the percentage allocated to local governments has had a negative impact on sales tax growth so far this year. In addition, a minor adjustment to sales tax deposits for fiscal year 2008 accounted for much of the increase in December receipts.

Cash receipts from other sources increased \$75 million or 4.9% due primarily to the unexpected growth in inheritance tax receipts (up \$51 million or 34.2%). Other major increases in revenue include: corporate franchise tax (\$20 million), Cook County IGT (\$25 million), and investment income (\$14 million). However, the Cook County transfer agreement has been modified and is expected to generate \$20 million less during the course of the year.

For the first half of fiscal year 2008, transfers in decreased \$6 million. Most of this decrease was due to \$94 million in fund sweeps last year and there were no fund sweeps legislated for fiscal year 2008. Also, \$25 million in administrative chargeback transfers occurred in the first half last year; chargeback authority ended at the close of fiscal year 2007. There was \$92 million transferred from the Income Tax Refund Fund in the first half of fiscal year 2007 compared to \$70 million this year. Transfers from the University of Illinois Hospital Services Fund totaled \$36 million through December last year and only \$8 million this year. Increases in gambling sources partially offset these declines. State Gaming Fund transfers are up \$15 million while Lottery Fund transfers are up \$36 million. In addition, \$80 million was transferred from the Hospital Provider Fund as part of the hospital assessment program. In fiscal year 2007, the state received this amount from the program in April.

Federal sources of revenue increased \$206 million or 9.5%, due to the acceleration and increase in Medicaid expenditures.

## Base Spending

Through December, base General Funds spending increased \$466 million or 3.5%. Awards and grants spending was up \$760 mil-

lion with operations up \$290 million and transfers out were up \$29 million. General Funds appropriations are up \$1.480 billion or 5.7% over last year. Through the first half of fiscal year 2008, 47.9% of General Funds appropriations have been expended compared to 47.5% last year.

After the first quarter of fiscal year 2008, Medicaid grant spending by the Department of Healthcare and Family Services had increased by \$889 million or 48.9% over the prior year with 37.6% of appropriations expended. However, the pace of Medicaid grant spending slowed dramatically in the second quarter and as a result, is up just \$303 million or 8.7% compared to the first half of last fiscal year. Appropriations for fiscal year 2008 Medicaid grant spending of \$6.894 billion are up \$345 million or 5.3% over the prior year. Through the first half of fiscal year 2008, 53.2% of Medicaid appropriations were expended compared to 52.0% in the first half of last fiscal year.

Other areas of spending which increased include State Board of Education grants (up \$91 million or 3.1%), Human Services grants (up \$61 million or 3.9%), teachers' retirement grants (up \$151 million or 37.1%), agency operations (up \$259 million or 10.0%), higher education operations (up \$31 million or 3.8%) and all other grants (up \$157 million or 22.8% primarily due to a significant increase in Department of Children and Family Services spending from the General Revenue Fund and an acceleration of Regional Transportation grants.). Transfers out also increased by \$29 million or 2.1%.

The only other area of spending which decreased from last year in the first half was higher education grants (down \$3 million or 0.7%).

## What Lies Ahead

A great deal of uncertainty accompanies the second half of fiscal year 2008. The first critical development will be the disposition of Senate Bill 783, the fiscal year 2008 budget implementation legislation, awaiting final approval. If enacted in its current form, the law will increase elementary and secondary education foundation level spending by \$308

million, a level affecting cash management practices for the remaining six months of the fiscal year. However, that spending could be partially offset by additional revenues of approximately \$250 million due to changes in the Income Tax Refund Fund allocations. Furthermore, it is unknown what additional unbudgeted spending activity, if any, could eventually result from the Governor's announced plan to expand the state's health-care coverage. At this point, it appears the state could end the year with a bill backlog of \$1 billion in the Comptroller's office while the state's Medicaid program could carry over an additional \$1.5 billion or more into fiscal year 2009. However, Senate Bill 783 may also permit the state to utilize non-GRF education funds to make school aid payments, thus relieving the General Revenue Fund and significantly reducing the year-end backlog at the IOC. In any case the next quarter will see continuing payment backlogs and delays as the pace of revenues will not address spending demands.

Fund sweeps and chargeback transfers totaled \$188 million and \$98 million respectively in fiscal year 2007, so absent legislative action, transfer income available over the second half of last year will not materialize this year. Revenues from the State Gaming Fund will likely decline at the end of the year due to previous changes in gaming tax rates and the discontinuation of the hold harmless provision in effect last year.

Sales tax revenues should increase over the next six months compared to last year due to the aforementioned correction of receipt allocations deposited into the General Revenue Fund. There are proposals, however, to divert significant state sales tax revenues to address funding issues at the Regional Transportation Authority putting additional pressure on the General Revenue Fund. Overall economy driven revenues, characterized by a continued decline in corporate income tax receipts as well as lagging retail sales, point to an apparently slowing economy. An economic slowdown will create tremendous challenges for the state and policy makers may struggle to construct a fiscal year 2009 spending plan with no definitive closure on the fiscal year 2008 budget. ■

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2006	2007		FY 2007	FY 2008	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 520	\$ 539	\$ 19	\$ 590	\$ 642	\$ 52	8.8 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 622	\$ 698	\$ 76	\$ 3,785	\$ 4,090	\$ 305	8.1 %
Corporate	238	264	26	676	639	(37)	(5.5)
Total, Income Taxes	860	962	102	4,461	4,729	268	6.0
Sales Taxes	638	714	76	3,695	3,726	31	0.8
Other Sources:							
Public Utility Taxes	96	85	(11)	530	514	(16)	(3.0)
Cigarette Taxes	29	29	0	175	175	0	0.0
Inheritance Tax (gross)	18	28	10	149	200	51	34.2
Liquor Gallonage Taxes	17	14	(3)	80	82	2	2.5
Insurance Tax and Fees	63	21	(42)	147	114	(33)	(22.4)
Corporation Franchise Tax and Fees	13	15	2	96	116	20	20.8
Investment Income	17	15	(2)	103	117	14	13.6
Cook County IGT	0	16	16	62	87	25	40.3
Other	24	29	5	202	214	12	5.9
Total, Other Sources	277	252	(25)	1,544	1,619	75	4.9
Total, Cash Receipts	\$ 1,775	\$ 1,928	\$ 153	\$ 9,700	\$ 10,074	\$ 374	3.9 %
Transfers In:							
Lottery Fund	\$ 43	\$ 59	\$ 16	\$ 271	\$ 307	\$ 36	13.3 %
State Gaming Fund	60	60	0	355	370	15	4.2
Other Funds	18	41	23	358	301	(57)	(15.9)
Total, Transfers In	\$ 121	\$ 160	\$ 39	\$ 984	\$ 978	\$ (6)	(0.6) %
Total, State Sources	\$ 1,896	\$ 2,088	\$ 192	\$ 10,684	\$ 11,052	\$ 368	3.4 %
Federal Sources	\$ 330	\$ 233	\$ (97)	\$ 2,161	\$ 2,367	\$ 206	9.5 %
<b>Total, Base Revenues</b>	<b>\$ 2,226</b>	<b>\$ 2,321</b>	<b>\$ 95</b>	<b>\$ 12,845</b>	<b>\$ 13,419</b>	<b>\$ 574</b>	<b>4.5 %</b>
Short Term Borrowing	0	0	0	0	1,200	1,200	0.0
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	300	300	N/A
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,226	\$ 2,321	\$ 95	\$ 13,121	\$ 15,195	\$ 2,074	15.8 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 701	\$ 744	\$ 43	\$ 2,910	\$ 3,001	\$ 91	3.1 %
Public Aid	513	300	(213)	3,479	3,782	303	8.7
Human Services	250	249	(1)	1,573	1,634	61	3.9
Teachers Retirement	68	93	25	407	558	151	37.1
Higher Education	24	19	(5)	408	405	(3)	(0.7)
All Other Grants	151	137	(14)	689	846	157	22.8
Total, Awards and Grants	1,707	1,542	(165)	9,466	10,226	760	8.0
Operations:							
Other Agencies	433	521	88	2,589	2,848	259	10.0
Higher Education	146	150	4	812	843	31	3.8
Total, Operations	579	671	92	3,401	3,691	290	8.5
Regular Transfers Out	187	362	175	1,389	1,418	29	2.1
All Other (Includes Prior Year Adjustments)	2	(1)	(3)	7	9	2	28.6
Vouchers Payable Adjustment	(158)	(303)	(145)	(981)	(1,596)	(615)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,317</b>	<b>\$ 2,271</b>	<b>\$ (46)</b>	<b>\$ 13,282</b>	<b>\$ 13,748</b>	<b>\$ 466</b>	<b>3.5 %</b>
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	1,200	1,200	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	300	300	0.0
Total, Expenditures	2,317	2,271	(46)	13,282	15,248	1,966	14.8
AVAILABLE CASH BALANCE, ENDING	\$ 429	\$ 589	\$ 160	\$ 429	\$ 589	\$ 160	37.3 %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2006	2007		FY 2007	FY 2008	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 66	\$ 55	\$ (11)	\$ 66	\$ 224	\$ 158	239.4 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 576	\$ 647	\$ 71	\$ 3,508	\$ 3,791	\$ 283	8.1 %
Corporate	221	245	24	627	593	(34)	(5.4)
Total, Income Taxes	797	892	95	4,135	4,384	249	6.0
Sales Taxes	479	536	57	2,770	2,793	23	0.8
Other Sources:							
Public Utility Taxes	86	76	(10)	476	459	(17)	(3.6)
Cigarette Taxes	15	15	0	89	89	0	0.0
Inheritance Tax (gross)	18	28	10	149	199	50	33.6
Liquor Gallonage Taxes	17	14	(3)	80	82	2	2.5
Insurance Tax and Fees	63	21	(42)	147	114	(33)	(22.4)
Corporation Franchise Tax and Fees	13	15	2	96	116	20	20.8
Investment Income	17	14	(3)	102	117	15	14.7
Cook County IGT	0	16	16	62	87	25	40.3
Other	23	29	6	199	211	12	6.0
Total, Other Sources	252	228	(24)	1,400	1,474	74	5.3
Total, Cash Receipts	\$ 1,528	\$ 1,656	\$ 128	\$ 8,305	\$ 8,651	\$ 346	4.2 %
Transfers In	18	41	23	358	301	(57)	(15.9)
Total, State Sources	\$ 1,546	\$ 1,697	\$ 151	\$ 8,663	\$ 8,952	\$ 289	3.3 %
Federal Sources	330	233	(97)	2,161	2,367	206	9.5
<b>Total, Base Revenues</b>	<b>\$ 1,876</b>	<b>\$ 1,930</b>	<b>\$ 54</b>	<b>\$ 10,824</b>	<b>\$ 11,319</b>	<b>\$ 495</b>	<b>4.6 %</b>
Short Term Borrowing	0	0	0	0	1,200	1,200	0.0
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	300	300	N/A
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 1,876	\$ 1,930	\$ 54	\$ 11,100	\$ 13,095	\$ 1,995	18.0 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 513	\$ 300	\$ (213)	\$ 3,479	\$ 3,782	\$ 303	8.7 %
Elementary and Secondary Education	326	396	70	914	1,109	195	21.3
Human Services	250	249	(1)	1,573	1,634	61	3.9
Higher Education	24	19	(5)	408	405	(3)	(0.7)
Children and Family Services	60	75	15	303	390	87	28.7
All Other Grants	92	63	(29)	396	462	66	16.7
Total, Awards and Grants	1,265	1,102	(163)	7,073	7,782	709	10.0
Operations:							
Other Agencies	427	515	88	2,551	2,813	262	10.3
Higher Education	127	150	23	757	843	86	11.4
Total, Operations	554	665	111	3,308	3,656	348	10.5
Regular Transfers Out	270	467	197	1,738	1,913	175	10.1
All Other (Includes Prior Adjustments)	2	0	(2)	9	10	1	11.1
Vouchers Payable Adjustment	(166)	(303)	(137)	(979)	(1,596)	(617)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,925</b>	<b>\$ 1,931</b>	<b>\$ 6</b>	<b>\$ 11,149</b>	<b>\$ 11,765</b>	<b>\$ 616</b>	<b>5.5 %</b>
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	1,200	1,200	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	300	300	0.0
Total, Expenditures	1,925	1,931	6	11,149	13,265	2,116	19.0
AVAILABLE CASH BALANCE, ENDING	\$ 17	\$ 54	\$ 37	\$ 17	\$ 54	\$ 37	217.6 %