

Comptroller's Quarterly

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HEALTH CARE COSTS PRESSURE STATE FINANCES

Department of Healthcare and Family Services grant expenditures (Medicaid) from the General Funds in the first quarter of fiscal year 2006 increased \$897 million or 70.0% compared to the same time last year. This growth in Medicaid spending, due in part to unusual spending patterns associated with the program last year, offset an impressive increase in economic revenues. The increase in health care spending was somewhat anticipated. At the end of fiscal year 2004, the state borrowed \$850 million to take advantage of the temporary increase in reimbursement rates. This borrowing reduced Medicaid expenditures in the first quarter of last year. As a result, Department of Healthcare and Family Services grant appropriations for fiscal year 2006 are up \$1.203 billion.

The increased pressure on state finances is evident in the graph of adjusted daily cash balances. At the end of September, the adjusted General Revenue Fund (GRF) balance was negative \$919 million. The GRF balance on September 30, 2005 was \$207 million with a backlog of \$1.126 billion in unpaid bills. It should be noted that the GRF balance includes \$194 million in charge-back and fee transfers which have not been recognized by the State Treasurer due to that office's concerns about the constitutionality of these transactions.

As can be seen in the accompanying chart, the negative GRF balance is following a similar course as it has over the past four years. Some of the fluctuations in the chart

are due to short-term borrowing in the past three fiscal years. With the current trend for fiscal year 2006, it is possible that the backlog of unpaid bills in the possession of the IOC could exceed \$2 billion in the near future.

On the revenue side, there has been better than expected growth in economic driven revenues. Income taxes are up 10.7% and sales taxes grew 8.2%. These increases exceed revenue estimates used to construct the FY 2006 budget.

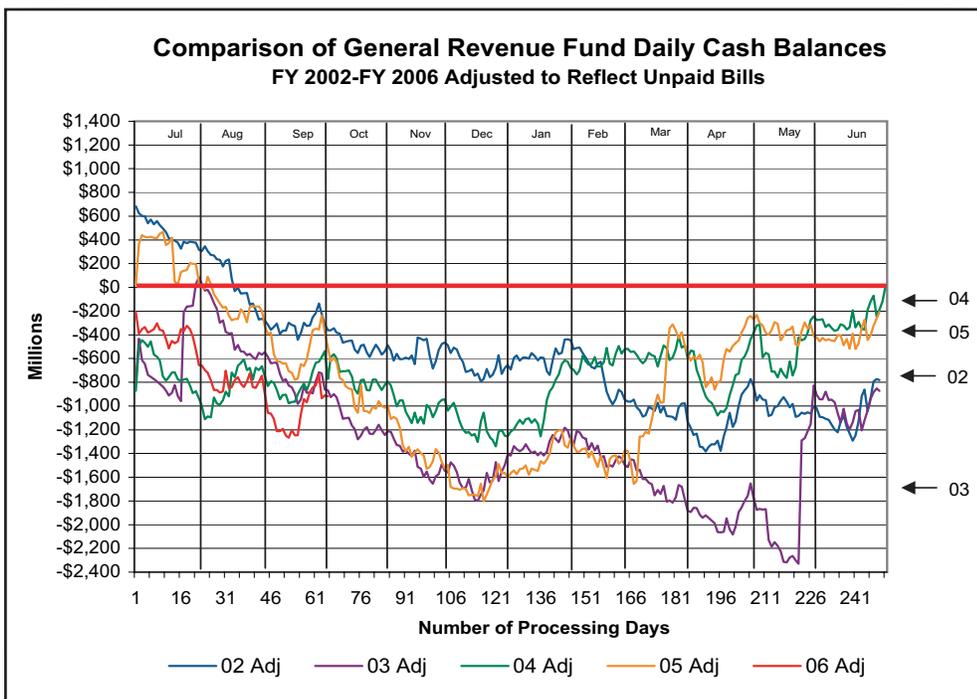
Base Revenues

At the end of the first quarter, base revenues declined from \$6.558 billion to

\$6.393 billion (\$165 million or 2.5%). Most of the decline is due to an expected decrease in other transfers while economic driven revenues exceeded expectations.

All other transfers dropped \$601 million due primarily to a one-time transfer last year of \$433 million from the Medicaid Provider Relief Fund to pay debt service on the June 2004 \$850 million short-term borrowing. There were fund sweeps of \$152 million last year compared to \$35 million this year. Also, there were \$39 million in chargeback transfers by the end of September and none so far this year.

Cash receipts from state sources increased \$246 million or 5.5% driven by



the growth in economic revenues. Income tax receipts increased \$202 million or 10.7% with individual up \$143 million (8.5%) and corporate up \$59 million (28.2%). Sales taxes grew by \$138 million or 8.2%. All other receipt sources were down \$94 million due to expected declines in cigarette taxes, riverboat gambling taxes, and Cook County intergovernmental transfers. Last year there was a one-time \$50 million diversion of cigarette taxes to the General Funds, riverboat gambling tax rates changed to prior levels and the increase diverted to the Common School Fund ended, and the Cook County transfer agreement was reduced this year.

Federal sources increased \$152 million or 13.6% due primarily to the growth in Medicaid spending.

Base Expenditures

Through September, base General Funds spending increased \$118 million or 1.8%. The expected large increase in Medicaid spending over the first quarter of last fiscal year was mostly offset by the large decrease in transfers out. General Funds appropriations are up \$546 million or 2.3% over last year. Through the first quarter of fiscal year 2005, 24.5% of General Funds appropriations have been expended compared to 20.8% last year.

The increase in both the amount and pace of spending is directly attributable to Medicaid grant spending by the Department of Healthcare and Family Services. Medicaid grant spending of \$2.179 billion is up \$897 million or 70.0% from last year. The increase in Medicaid is due to a \$1.203 billion increase in appropriations. This increase

follows a \$505 million decrease from the year before that was enabled by short-term borrowing utilized in fiscal year 2004 to take advantage of increased reimbursement rates. In fiscal year 2004 the state's reimbursement rate for Medicaid was increased from 50% to 53% and the state also received half of the \$422 million in federal grants under the Jobs and Growth Tax Relief Reconciliation Act in the first quarter. In the first quarter of fiscal year 2006, 34.6% of Medicaid appropriations were expended.

Transfers out of \$673 million in the first three months of fiscal year 2006 are \$743 million or 52.5% less than the \$1.416 billion transferred in the first quarter last fiscal year. Last fiscal year, \$914 million was transferred to the General Obligation B. R. & I. Fund compared to only \$265 million in the first quarter this year.

Other areas of spending which decreased from last year include teachers' retirement grants (down \$52 million or 25.5%) and agency operations (down \$9 million or 0.7%).

Areas of spending which increased other than Medicaid include State Board of Education grants (up \$79 million or 7.0%), Human Services grants (up \$46 million or 5.7%), higher education grants (up \$40 million or 28.2%), and higher education operations (up \$22 million or 6.0%).

What Lies Ahead

As stated previously, it is anticipated that the backlog of unpaid bills will continue to grow over the coming months as historical revenue and spending patterns emerge. Currently, the backlog is \$1.126

billion and the number of days payments are delayed is over three weeks. Last year at this time the backlog was \$535 million with payment delays of 10 days, reflecting the cash flow impact of the short-term borrowing in June of 2004. By last December payment delays exceeded six weeks and totaled \$1.8 billion. It is highly probable that the current backlog will surpass these figures by the end of the second quarter of this year. It should be noted that these delays do not include the days billings are held by the agencies.

Since 2002, the state has utilized short-term borrowing to alleviate significant payment backlogs and it employed similar strategies in the 1990s to address these same issues. Many in the provider community appear to have become reliant on the periodic infusions of revenue made available from yearly borrowing initiatives. Maintaining a large volume of unpaid bills places an undue burden on the state's providers and there is a real concern that absent state action, a disruption of vital state services could occur that would not be limited to health care. The Comptroller has proposed a cash management plan that includes borrowing \$1.1 billion short-term to reduce payment backlogs and provide needed relief to these providers. The plan would by design leverage federal reimbursements and effectively accelerate the receipt of federal revenues. Because of the timing imbalance between the receipt of revenues and expenditures, the state has utilized short-term borrowing in eight of the past 15 years. Short-term borrowing is not a panacea but continued economic revenue growth will help to reduce the spending pressures associated with these critical programs. ■

GENERAL FUNDS TRANSACTIONS

(Dollars in Millions)

	September		Change	Three Months		Change	
	2004	2005		FY 2005	FY 2006	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 297	\$ 708	\$ 411	\$ 182	\$ 497	\$ 315	173.1 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 645	\$ 719	\$ 74	\$ 1,675	\$ 1,818	\$ 143	8.5 %
Corporate	165	222	57	209	268	59	28.2
Total, Income Taxes	810	941	131	1,884	2,086	202	10.7
Sales Taxes	572	602	30	1,673	1,811	138	8.2
Other Sources:							
Public Utility Taxes	107	91	(16)	250	269	19	7.6
Cigarette Taxes	61	32	(29)	141	100	(41)	(29.1)
Inheritance Tax (gross)	18	22	4	69	59	(10)	(14.5)
Liquor Gallonage Taxes	12	13	1	38	40	2	5.3
Insurance Tax and Fees	74	62	(12)	94	82	(12)	(12.8)
Corporation Franchise Tax and Fees	16	15	(1)	42	43	1	2.4
Investment Income	2	10	8	8	31	23	287.5
Cook County IGT	23	0	(23)	77	40	(37)	(48.1)
Riverboat Gambling Taxes	19	0	(19)	42	4	(38)	(90.5)
Other	30	29	(1)	125	124	(1)	(0.8)
Total, Other Sources	362	274	(88)	886	792	(94)	(10.6)
Total, Cash Receipts	\$ 1,744	\$ 1,817	\$ 73	\$ 4,443	\$ 4,689	\$ 246	5.5 %
Transfers In:							
Lottery Fund	\$ 49	\$ 55	\$ 6	\$ 143	\$ 169	\$ 26	18.2 %
State Gaming Fund	60	60	0	153	165	12	7.8
Other Funds	86	16	(70)	699	98	(601)	(86.0)
Total, Transfers In	\$ 195	\$ 131	\$ (64)	\$ 995	\$ 432	\$ (563)	(56.6) %
Total, State Sources	\$ 9	\$ 1,948	\$ 1,939	\$ 5,438	\$ 5,121	\$ (317)	(5.8) %
Federal Sources	\$ 516	\$ 489	\$ (27)	\$ 1,120	\$ 1,272	\$ 152	13.6 %
Total, Base Revenues	\$ 55	\$ 2,437	\$ 2,4(18)	\$ 6,558	\$ 6,393	\$ (165)	(2.5) %
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	0	276	276	N/A
Total, Revenues	\$ 5	\$ 2,437	\$ (182.45)	\$ 6,558	\$ 6,669	\$ 111	1.7 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 622	\$ 660	\$ 38	\$ 1,132	\$ 1,211	\$ 79	7.0 %
Healthcare & Family Services (Public Aid)	562	609	47	1,282	2,179	897	70.0
Human Services	236	285	49	805	851	46	5.7
Teachers Retirement	76	51	(25)	204	152	(52)	(25.5)
Higher Education	64	84	20	142	182	40	28.2
All Other Grants	91	119	28	307	313	6	2.0
Total, Awards and Grants	1,651	1,808	157	3,872	4,888	1,016	26.2
Operations:							
Other Agencies	412	402	(10)	1,265	1,256	(9)	(0.7)
Higher Education	178	159	(19)	364	386	22	6.0
Total, Operations	590	561	(29)	1,629	1,642	13	0.8
Regular Transfers Out	397	190	(207)	1,416	673	(743)	(52.5)
All Other (Includes Prior Year Adjustments)	32	1	(31)	47	5	(42)	(89.4)
Vouchers Payable Adjustment	(210)	(15)	195	(516)	(642)	(126)	N/A
Total, Base Expenditures	\$ 2,460	\$ 2,545	\$ 85	\$ 6,448	\$ 6,566	\$ 118	1.8 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,460	2,545	85	6,448	6,566	118	1.8
AVAILABLE CASH BALANCE, ENDING	\$ 292	\$ 600	\$ 308	\$ 292	\$ 600	\$ 308	105.5 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2004	2005		FY 2005	FY 2006	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 3	\$ 243	\$ 240	\$ 24	\$ 198	\$ 174	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 598	\$ 666	\$ 68	\$ 1,553	\$ 1,685	\$ 132	8.5 %
Corporate	153	206	53	194	248	54	27.8
Total, Income Taxes	751	872	121	1,747	1,933	186	10.6
Sales Taxes	429	451	22	1,257	1,358	101	8.0
Other Sources:							
Public Utility Taxes	96	82	(14)	223	242	19	8.5
Cigarette Taxes	40	20	(20)	90	65	(25)	(27.8)
Inheritance Tax (gross)	18	22	4	69	59	(10)	(14.5)
Liquor Gallonage Taxes	12	13	1	38	40	2	5.3
Insurance Tax and Fees	74	62	(12)	94	82	(12)	(12.8)
Corporation Franchise Tax and Fees	16	15	(1)	42	43	1	2.4
Investment Income	2	10	8	8	30	22	275.0
Cook County IGT	23	0	(23)	77	40	(37)	(48.1)
Other	30	29	(1)	123	122	(1)	(0.8)
Total, Other Sources	311	253	(58)	764	723	(41)	(5.4)
Total, Cash Receipts	\$ 1,491	\$ 1,576	\$ 85	\$ 3,768	\$ 4,014	\$ 246	6.5 %
Transfers In	86	16	(70)	700	98	(602)	(86.0)
Total, State Sources	\$ 7	\$ 1,592	\$ 1,571	\$ 4,468	\$ 4,112	\$ (356)	(8.0) %
Federal Sources	516	489	(27)	1,120	1,272	152	13.6
Total, Base Revenues	\$ 2,093	\$ 2,081	\$ (12)	\$ 5,588	\$ 5,384	\$ (204)	(3.7) %
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	0	276	276	N/A
Total, Revenues	\$ 2,093	\$ 2,081	\$ (12)	\$ 5,588	\$ 5,660	\$ 72	1.3 %
Expenditures:							
Awards and Grants:							
Healthcare & Family Services (Public Aid)	\$ 562	\$ 609	\$ 47	\$ 1,282	\$ 2,179	\$ 897	70.0 %
Elementary and Secondary Education	317	290	(27)	497	456	(41)	(8.2)
Human Services	236	285	49	805	851	46	5.7
Higher Education	64	84	20	142	182	40	28.2
Children and Family Services	62	51	(11)	172	141	(31)	(18.0)
All Other Grants	45	75	30	158	191	33	20.9
Total, Awards and Grants	1,286	1,394	108	3,056	4,000	944	30.9
Operations:							
Other Agencies	412	402	(10)	1,265	1,256	(9)	(0.7)
Higher Education	157	145	(12)	321	359	38	11.8
Total, Operations	569	547	(22)	1,586	1,615	29	1.8
Regular Transfers Out	397	190	(207)	1,416	673	(743)	(52.5)
All Other (Includes Prior Adjustments)	32	1	(31)	48	5	(43)	(89.6)
Vouchers Payable Adjustment	(210)	(15)	195	(516)	(642)	(126)	N/A
Total, Base Expenditures	\$ 2,074	\$ 2,117	\$ 43	\$ 5,590	\$ 5,651	\$ 61	1.1 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,074	2,117	43	5,590	5,651	61	1.1
AVAILABLE CASH BALANCE, ENDING	\$ 22	\$ 207	\$ 185	\$ 22	\$ 207	\$ 185	N/A %