

Comptroller's Quarterly

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HEALTH CARE BILLS OVERWHELM STATE FINANCES

Following a familiar pattern, Medicaid bills for services incurred in the previous fiscal year have inundated the state's bill paying process in the first quarter of the new fiscal year significantly increasing the state's overall backlog of unpaid bills. With other appropriations also increasing and revenue growth stagnant or declining, the prognosis for Illinois finances is not optimistic going into the remainder of fiscal year 2009.

At the end of the first quarter of fiscal year 2009, the state's General Revenue Fund cash flow position compared to last year had deteriorated by \$590 million. The General Funds available cash balance on September 30th was \$188 million, a decrease of \$573 million or 75.3% lower than the balance of \$761 million last year. At the end of September, payables in the Comptroller's Office stood at \$1.823 billion, while this time last year payables in the office totaled \$1.393 billion. This change is evident in the chart of adjusted General Revenue Fund (GRF) balances. On September 30, 2008, the adjusted General Revenue Fund balance was a first quarter record negative \$1.761 billion compared to a negative \$1.171 billion last year. The numbers of days bills have been backlogged at the Comptroller's office reached 42 days at the end of September, a historical record at this point in the fiscal year.

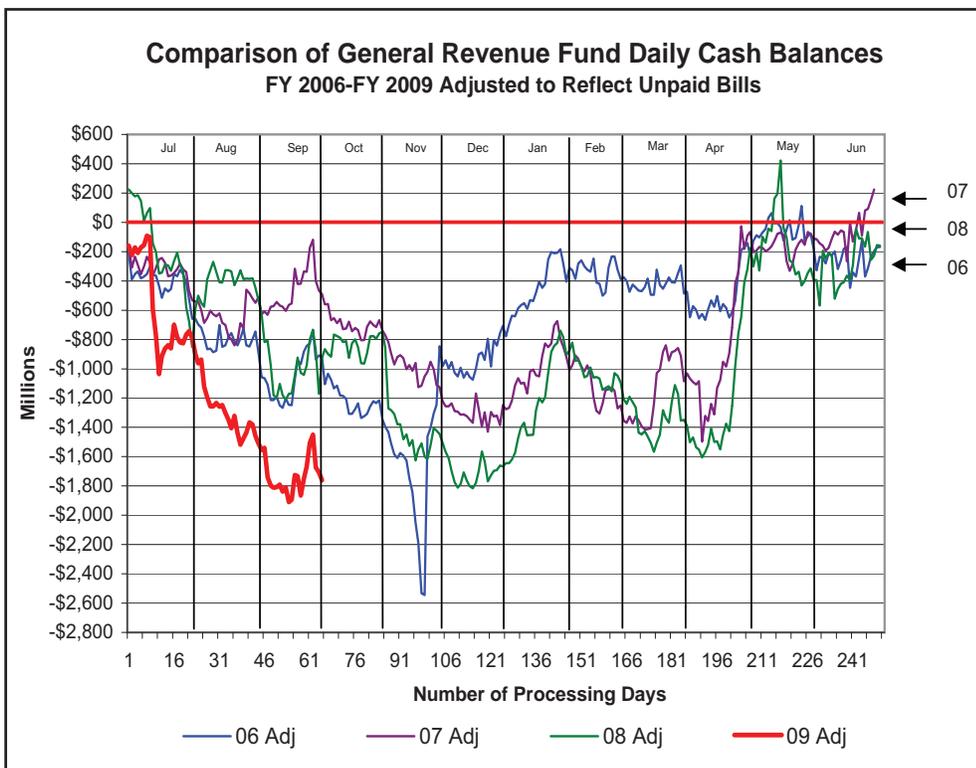
The state started fiscal year 2009 in a weaker fiscal position as fiscal year 2008 lapse period spending of \$975 million translated into a budgetary deficit of \$834 million, a decline of \$699 million from fiscal year

2007. In July 2008, the Department of Healthcare and Family Services sent over \$1.6 billion in Medicaid vouchers to the Comptroller's Office. With Illinois already in a weaker fiscal condition, these Medicaid vouchers had a major impact on the backlog of unpaid bills. Over one-third of the fiscal year 2008 Medicaid appropriation was sent to the Comptroller's Office in the first quarter, including over 23% in the first month alone.

Revenues from the state sales tax and income taxes had minimal growth in the first quarter. Transfers in from gambling sources were down for the quarter. These

declines were exacerbated by decreases in corporate franchise taxes, investment income, and federal revenues.

If a decline or minimal growth in key economy-driven revenues continues, there will be no opportunity to improve the state's current fiscal position. Since overall fiscal year 2009 General Funds appropriations were increased by \$784 million, it is impossible under current conditions to forecast a cash flow improvement during the next two quarters. The negative cash position and the number of days backlogged will only grow to more dangerous levels over the next few months.



Base Revenues

At the end of the first quarter of fiscal year 2009, base revenues totaled \$6.784 billion. This represents a decrease of \$38 million or 0.6%. State sources of revenue were up \$19 million or 0.3% while federal sources decreased \$57 million (4.2%). At the end of September, income taxes had increased \$83 million or 3.5% with individual income taxes up \$78 million (3.8%) and corporate income taxes up \$5 million (1.5%).

Sales tax receipts increased by \$47 million or 2.6%. With one more processing day this quarter, it appears overall that retail sales are flat which indicates that Illinois' economy has slowed dramatically.

Cash receipts from other sources decreased \$41 million or 5.2%. Public utility tax receipts increased \$19 million while corporate franchise tax receipts are down \$18 million and investment income fell \$31 million.

Transfers in from other funds decreased \$70 million for the quarter. Most of this decrease was due to gambling as Lottery Fund transfers declined \$15 million and State Gaming Fund transfers fell \$40 million. All other transfers were down slightly as an unexpected transfer of \$46 million from the State Whistleblower Reward and Protection Fund partially offset the decline in transfers from the Income Tax Refund Fund.

Federal sources of revenue decreased \$57 million or 4.2% due to backlogged Medicaid payments.

Base Expenditures

Through September, base General Funds spending increased \$34 million or 0.5%. Awards and grants spending was up \$137 million with operations up \$128 million and transfers out down \$27 million. General Funds appropriations are up \$784 million or 2.8% over last year but do not reflect the full certified retirement systems' appropriations which Illinois will statutorily be required to pay. Through the first quarter of fiscal year 2009, 25.0% of General Funds appropria-

tions were expended compared to 24.8% last year.

The increase in awards and grants spending is primarily attributable to education spending. State Board of Education grants were up \$225 million or 16.8% (appropriations up \$329 million or 4.7%) while Teachers Retirement grants increased \$106 million or 38.4% (appropriations up \$155 million or 13.9%) and Higher Education grants are up \$13 million or 7.4% (appropriations are down \$25 million or 3.0%). It should be noted that Teachers Retirement grants were under appropriated by approximately \$255 million. Aside from education grant spending, grant spending for Human Services increased \$50 million.

The only major sector of grant spending that declined was Medicaid grant spending by the Department of Healthcare and Family Services. Medicaid grant spending of \$2.461 billion is down \$245 million or 9.1% from last year. Appropriations for fiscal year 2009 Medicaid grant spending of \$6.924 billion are up \$30 million or 0.4% over the prior year. In the first quarter of fiscal year 2009, 34.8% of Medicaid appropriations were expended which included 23.4% spent in July alone. Last year, 37.6% of appropriations were spent in the first quarter with 22.1% spent in July.

Operations spending in the first quarter increased \$128 million or 7.2% to \$1.903 billion. Higher education operations spending totaled \$411 million (up \$69 million or 20.2%) and operations spending for all other agencies totaled \$1.492 billion (up \$59 million or 4.1%). Regular transfers out declined \$27 million or 3.9% through the first quarter.

What Lies Ahead

Going into the second quarter of fiscal year 2009, the General Funds cash position is weaker than it ever has been at this point in the year – there is over \$1.8 billion in bills being held in GRF and it is the fastest and largest decline from year to year in the state's adjusted GRF cash balance position

in history. In addition, economy-driven revenues appeared to weaken in the first quarter as well. As the cash position of the state will further deteriorate over the next few months, cash management of the state's payables threatens to become untenable further eroding the foundation of the state's health care and social service infrastructure. All entities reliant on state payments could face significant delays in anticipated payments.

Last year the \$1.393 billion backlog at the end of September grew to \$1.720 billion by the end of December. The number of days payables were backlogged increased from 16 to 34 days over this time frame. With revenues flat or declining and spending increasing, the growth in the current backlog of \$1.823 billion and 42 days will experience an even greater increase by the end of the calendar year and beyond. In most years, the backlog has continued to grow into the early part of April when annual state income tax payments bring in needed relief.

If the economy does not rebound, the backlog at the end of the fiscal year (June 30) could easily surpass the payables at the end of fiscal years 2002 and 2003. In those recession years, lapse period spending exceeded \$1.4 billion. With fiscal year 2009 already in a worse cash flow position than in those years, lapse period spending could approach or even exceed \$2 billion. Obviously, starting fiscal year 2010 with that amount of prior year obligations will dramatically impact the State's ability to pay bills immediately especially if the historical Medicaid spending pattern continues.

It is already apparent that payment delays are having a serious impact on the vendors that provide state services and the populations they serve. Reports of financial distress among providers of vital state services are already numerous. Increases in payment delays will have continued detrimental effects not only on people who receive state services but also on the state's overall economy. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2007	2008		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 596	\$ 164	\$ (432)	\$ 642	\$ 141	\$ (501)	(78.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 836	\$ 899	\$ 63	\$ 2,072	\$ 2,150	\$ 78	3.8 %
Corporate	276	261	(15)	329	334	5	1.5
Total, Income Taxes	1,112	1,160	48	2,401	2,484	83	3.5
Sales Taxes	581	621	40	1,804	1,851	47	2.6
Other Sources:							
Public Utility Taxes	75	82	7	258	277	19	7.4
Cigarette Taxes	29	29	0	88	88	0	0.0
Inheritance Tax (gross)	14	13	(1)	70	71	1	1.4
Liquor Gallonage Taxes	14	13	(1)	42	42	0	0.0
Insurance Tax and Fees	56	55	(1)	81	78	(3)	(3.7)
Corporation Franchise Tax and Fees	38	22	(16)	67	49	(18)	(26.9)
Investment Income	14	8	(6)	55	24	(31)	(56.4)
Cook County IGT	0	0	0	15	13	(2)	(13.3)
Other	29	28	(1)	112	105	(7)	(6.3)
Total, Other Sources	269	250	(19)	788	747	(41)	(5.2)
Total, Cash Receipts	\$ 1,962	\$ 2,031	\$ 69	\$ 4,993	\$ 5,082	\$ 89	1.8 %
Transfers In:							
Lottery Fund	\$ 57	\$ 52	\$ (5)	\$ 148	\$ 133	\$ (15)	(10.1) %
State Gaming Fund	60	55	(5)	175	135	(40)	(22.9)
Other Funds	13	75	62	145	130	(15)	(10.3)
Total, Transfers In	\$ 130	\$ 182	\$ 52	\$ 468	\$ 398	\$ (70)	(15.0) %
Total, State Sources	\$ 2,092	\$ 2,213	\$ 121	\$ 5,461	\$ 5,480	\$ 19	0.3 %
Federal Sources	\$ 213	\$ 359	\$ 146	\$ 1,361	\$ 1,304	\$ (57)	(4.2) %
Total, Base Revenues	\$ 2,305	\$ 2,572	\$ 267	\$ 6,822	\$ 6,784	\$ (38)	(0.6) %
Short Term Borrowing	1,200	0	(1,200)	1,200	0	(1,200)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 3,505	\$ 2,572	\$ (933)	\$ 8,298	\$ 7,060	\$ (1,238)	(14.9) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 774	\$ 861	\$ 87	\$ 1,339	\$ 1,564	\$ 225	16.8 %
Healthcare and Family Services	491	447	(44)	2,706	2,461	(245)	(9.1)
Human Services	254	317	63	870	920	50	5.7
Teachers Retirement	93	127	34	276	382	106	38.4
Higher Education	173	89	(84)	176	189	13	7.4
All Other Grants	177	149	(28)	439	427	(12)	(2.7)
Total, Awards and Grants	1,962	1,990	28	5,806	5,943	137	2.4
Operations:							
Other Agencies	476	488	12	1,433	1,492	59	4.1
Higher Education	137	174	37	342	411	69	20.2
Total, Operations	613	662	49	1,775	1,903	128	7.2
Regular Transfers Out	228	276	48	689	662	(27)	(3.9)
All Other (Includes Prior Year Adjustments)	2	0	(2)	8	5	(3)	(37.5)
Vouchers Payable Adjustment	(665)	(380)	285	(1,299)	(1,500)	(201)	N/A
Total, Base Expenditures	\$ 2,140	\$ 2,548	\$ 408	\$ 6,979	\$ 7,013	\$ 34	0.5 %
Cash Flow Transfer - Hospital Provider Fund	1,200	0	(1,200)	1,200	0	(1,200)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,340	2,548	(792)	8,179	7,013	(1,166)	(14.3)
AVAILABLE CASH BALANCE, ENDING	\$ 761	\$ 188	\$ (573)	\$ 761	\$ 188	\$ (573)	(75.3) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2007	2008		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 81	\$ 7	\$ (74)	\$ 224	\$ 48	\$ (176)	(78.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 775	\$ 833	\$ 58	\$ 1,920	\$ 1,993	\$ 73	3.8 %
Corporate	256	242	(14)	305	310	5	1.6
Total, Income Taxes	1,031	1,075	44	2,225	2,303	78	3.5
Sales Taxes	435	466	31	1,353	1,387	34	2.5
Other Sources:							
Public Utility Taxes	67	74	7	232	249	17	7.3
Cigarette Taxes	15	15	0	45	45	0	0.0
Inheritance Tax (gross)	14	13	(1)	70	71	1	1.4
Liquor Gallonage Taxes	14	13	(1)	42	42	0	0.0
Insurance Tax and Fees	56	55	(1)	81	78	(3)	(3.7)
Corporation Franchise Tax and Fees	37	22	(15)	66	49	(17)	(25.8)
Investment Income	14	8	(6)	55	24	(31)	(56.4)
Cook County IGT	0	0	0	15	13	(2)	(13.3)
Other	29	28	(1)	111	103	(8)	(7.2)
Total, Other Sources	246	228	(18)	717	674	(43)	(6.0)
Total, Cash Receipts	\$ 1,712	\$ 1,769	\$ 57	\$ 4,295	\$ 4,364	\$ 69	1.6 %
Transfers In	13	74	61	145	129	(16)	(11.0)
Total, State Sources	\$ 1,725	\$ 1,843	\$ 118	\$ 4,440	\$ 4,493	\$ 53	1.2 %
Federal Sources	213	359	146	1,361	1,304	(57)	(4.2)
Total, Base Revenues	\$ 1,938	\$ 2,202	\$ 264	\$ 5,801	\$ 5,797	\$ (4)	(0.1) %
Short Term Borrowing	1,200	0	(1,200)	1,200	0	(1,200)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 3,138	\$ 2,202	\$ (936)	\$ 7,277	\$ 6,073	\$ (1,204)	(16.5) %
Expenditures:							
Awards and Grants:							
Healthcare and Family Services	\$ 491	\$ 447	\$ (44)	\$ 2,706	\$ 2,461	\$ (245)	(9.1) %
Elementary and Secondary Education	416	407	(9)	574	667	93	16.2
Human Services	254	317	63	870	920	50	5.7
Higher Education	173	16	(157)	176	105	(71)	(40.3)
Children and Family Services	97	89	(8)	203	211	8	3.9
All Other Grants	81	61	(20)	238	218	(20)	(8.4)
Total, Awards and Grants	1,512	1,337	(175)	4,767	4,582	(185)	(3.9)
Operations:							
Other Agencies	470	482	12	1,416	1,474	58	4.1
Higher Education	137	173	36	342	409	67	19.6
Total, Operations	607	655	48	1,758	1,883	125	7.1
Regular Transfers Out	337	492	155	841	1,047	206	24.5
All Other (Includes Prior Adjustments)	2	1	(1)	8	5	(3)	(37.5)
Vouchers Payable Adjustment	(661)	(338)	323	(1,295)	(1,458)	(163)	N/A
Total, Base Expenditures	\$ 1,797	\$ 2,147	\$ 350	\$ 6,079	\$ 6,059	\$ (20)	(0.3) %
Cash Flow Transfer - Hospital Provider Fund	1,200	0	(1,200)	1,200	0	(1,200)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,997	2,147	(850)	7,279	6,059	(1,220)	(16.8)
AVAILABLE CASH BALANCE, ENDING	\$ 222	\$ 62	\$ (160)	\$ 222	\$ 62	\$ (160)	(72.1) %