

Comptroller's Quarterly

LESLIE GEISSLER MUNGER, COMPTROLLER

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CASH CHALLENGES TO INCREASE BACKLOG

Uncertainty over what would be funded in fiscal year 2016 has transformed into when it will be funded in fiscal year 2017 and beyond.

Some services whose appropriations were absent or greatly reduced throughout fiscal year 2016 were included in a stopgap bill signed hours before fiscal year 2017 began. However the absence of any reforms, increased revenues, or cuts elsewhere in the budget will make clearing those vouchers, the existing backlog, and obligations as prescribed by law an increasingly pressing issue.

Public Act 99-0524 provided fiscal year 2016 appropriations and fiscal year 2017 appropriations that may be used for the new and expiring years' liabilities. Only one of the consent decrees and court orders were replaced by appropriations in the bill.

Among those services appropriated in the bill were public utility payments and vendor services at public safety and correctional facilities, another semester's worth of Monetary Award Program grants, state aid to higher education institutions, highway

construction projects administered by the Dept. of Transportation, additional Medicaid reimbursements, and increased funding for P-12 education through the existing general state aid formula.

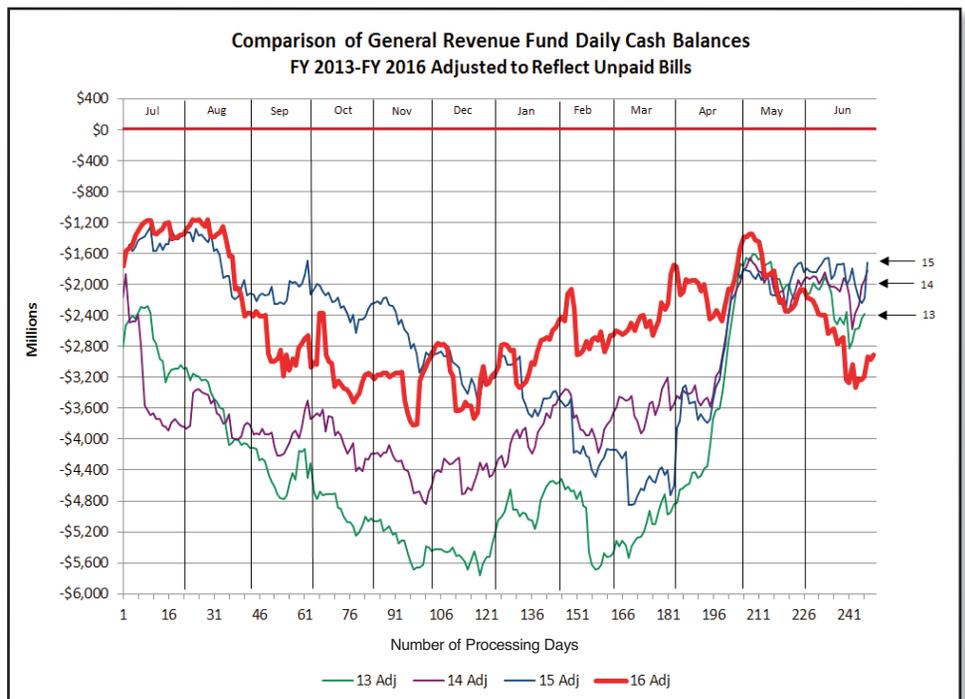
Neither the stopgap nor the budget implementation bill included a transfer for the realization of an appropriation from the Health Insurance Relief Fund (HIRF) for state employee group insurance. This means the Comptroller's Office can only use HIRF's cash balance, roughly \$213 million on June 30, and participant premiums made through Dec. 31, to issue group health insurance payments. Even if they did it is highly unlikely the General Revenue Fund would have been able to provide adequate revenues for the \$3.011 billion appropriation without inflicting severe payment delays on all other General Funds payments.

The Comptroller's Office faces a challenge in clearing fiscal year 2016 vouchers by Dec. 31 while also making payments as prescribed by law, such as principal and interest payments on outstanding debt. It is likely the fiscal year 2016 lapse period will need to be extended into calendar year 2017.

QUARTERLY HIGHLIGHTS

General Funds payables were worth \$3.444 billion at the close of the fourth quarter, which represented a \$614 million increase when compared to the same day one year ago. Outstanding payables were \$395 million higher than the close of the third quarter. The Comptroller estimates another \$4.3 billion in vouchers were held at the agencies (including those for group insurance), which would put the fourth quarter's outstanding General Funds payables at \$7.744 billion.

The General Revenue Fund, which serves as the state's primary operating account, closed the fourth quarter with a cash balance of -\$2.907 billion when adjusted to reflect outstanding vouchers. Early estimates completed by the Comptroller put the General Funds backlog at roughly \$10 billion by the end of calendar year 2016.



Furthermore, the Dept. of Revenue has alerted the Comptroller it will require an increase in the percentage of income tax receipts withheld for the Income Tax Refund Fund. In a letter dated June 30, the Department says it has set the fiscal year 2017 deference rates at 11.2 percent for all individual income tax receipts and 17.25 percent for all corporate income and replacement tax receipts. This represents a 14.87 percent and 13.94 percent increase, respectively, from the fiscal year 2016 rates, and will require a revision to General Funds revenue estimates.

The Comptroller's Office also met recently with chief financial officers and budget officials from state agencies and entities. In these meetings the officials have been strongly encouraged to voucher to the Comptroller payments for services received between July 1, 2015 and June 30, 2016 before addressing what would be fiscal year 2017 services. Among other reasons, this was done in an attempt to minimize prompt payment interest liabilities, which the Comptroller expects to be at record highs.

BASE REVENUES

A combination of the expiration of the temporary income tax rate increase at the beginning of calendar year 2015, along with one-time fund sweeps in the prior fiscal year resulted in a large deterioration of total General Funds revenues for fiscal year 2016. General Funds total base revenues for the year were \$30.373 billion, a decline of \$5.515 billion, or 15.4 percent. Factors impacting the state's base revenues for the year include:

- **INCOME TAX:** Individual income tax receipts were \$12.890 billion, a decline of \$2.543 billion (16.5 percent) compared to fiscal year 2015 while corporate income tax revenues dropped \$714 million (26.6 percent) to \$1.972 billion. Additionally, \$917 million of income tax revenues were deposited into new funds dedicated to education and human services programs compared to \$485 million last year.
- **SALES TAX:** Through the end of the fiscal year, sales tax revenues brought in \$8.063 billion, a disappointing growth of \$33 million (0.4 percent).
- **TRANSFERS:** Lottery transfers were down \$1 million for the year as the final transfer was late. Riverboat gambling transfers continued the decline of the past few years, decreasing

\$15 million. Other funds transfers deteriorated \$1.384 billion, which is largely attributed to statutorily authorized funds sweeps in the fourth quarter of fiscal year 2015. It is important to note that transfers from the Budget Stabilization Fund and Interfund borrowing are excluded from base revenue analysis.

- **FEDERAL REVENUE:** Federal dollars represented \$2.665 billion in General Funds revenues this fiscal year, which is a decrease of \$666 million (20.0 percent). This can be attributed to the lack of cash infusion from the fiscal year 2015 fourth quarter fund sweeps, as well as, fewer bills submitted that were eligible for Medicaid reimbursement.
- **OTHER RECEIPTS:** All other state receipts are down \$225 million (6.6 percent) from the previous fiscal year. Insurance taxes and fees increased \$45 million; however, court settlements reached by the Office of the Attorney General declined \$122 million, public utility taxes, which are partially consumption based, are down \$80 million and inheritance taxes decreased \$27 million.

BASE EXPENDITURES

General Funds base spending – payments released by the Comptroller – was at \$30.748 billion through the end of fiscal year 2016, which represented a decrease of \$5.047 billion (14.1 percent). Warrants issued, including prior year adjustments, decreased \$5.155 billion while transfers out increased by \$108 million. Although a small portion of the fiscal year 2016 General Funds budget was enacted (largely education related) a majority of spending occurred based on continuing appropriations, court orders and consent decrees. Therefore, due to the lack of a complete budget, General Funds appropriations for fiscal year 2016 are down \$3.301 billion compared to the prior year. Agencies with the largest decreases are the Dept. of Central Management Services a decrease of \$1.575 billion (most of which is used to fund state employee and retiree health insurance) and higher education agencies (excluding the State University Retirement System), down \$1.324 billion.

- **SOCIAL SERVICES:** The Comptroller paid \$6.020 billion in vouchers presented by the Dept. of Healthcare and Family Services (HFS) (primarily for Medicaid spending), which was down by \$1.153 billion (16.1

percent) for the fiscal year. The HFS decline is mostly due to the timing of vouchers processed. With an available fiscal year 2016 appropriation balance of \$1.159 billion as of June 30, lapse period spending is expected to greatly exceed the prior year lapse period spending of \$49 million. The Dept. on Aging spending was \$638 million, down \$281 million (30.6 percent). Warrants from the Dept. of Children and Family Services totaled \$616 million, down \$64 million (9.4 percent) through the fourth quarter of the fiscal year, and Dept. of Human Services vouchers represented \$3.257 billion in spending, a decline of \$124 million (3.7 percent).

- **EDUCATION:** The State Board of Education expenditures were down \$36 million (0.5 percent) compared to fiscal year 2015 bringing the total to \$6.515 billion through the end of the fiscal year. General Funds appropriations for General State Aid for schools decreased \$39 million this fiscal year, however \$246 million more was appropriated from the fund that receives a portion of the income tax. Vouchers presented by higher education agencies, excluding the retirement system, were down to \$622 million, a decrease of \$1.318 billion or 67.9 percent.
- **RETIREMENT SYSTEMS:** At \$3.869 billion, Teachers Retirement System spending was up \$332 million (9.4 percent) for the year. Warrants from the State Employees Retirement System totaled \$1.367 billion, an increase of \$218 million (19.0 percent), and State University Retirement System expenditures increased \$64 million (4.7 percent) to \$1.416 billion.
- **ALL OTHER:** Of all the other major agencies, the Dept. of Central Management Services had the largest decline in vouchers presented to the Comptroller. Most of the \$1.613 billion (98.1 percent) decline is due to a lack of appropriation to pay state employee health insurance bills. Additionally, spending is down at the Dept. of Corrections, by \$397 million (29.5 percent) for the fiscal year due to the lack of a complete budget.
- **TRANSFERS OUT:** Transfers out through the fourth quarter increased by \$108 million (2.3 percent) compared to fiscal year 2015. The increase is partially due to a \$271 million reduction in the transfers backlog at the end of fiscal year 2016. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2015	2016		FY 2015	FY 2016	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 279	\$ 283	\$ 4	\$ 74	\$ 621	\$ 547	739.2 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,244	\$ 1,310	\$ 66	\$ 15,433	\$ 12,890	\$ (2,543)	(16.5) %
Corporate	336	105	(231)	2,686	1,972	(714)	(26.6)
Total, Income Taxes	1,580	1,415	(165)	18,119	14,862	(3,257)	(18.0)
Sales Taxes	705	733	28	8,030	8,063	33	0.4
Other Sources:							
Public Utility Taxes	80	68	(12)	1,006	926	(80)	(8.0)
Cigarette Taxes	29	29	0	353	353	0	0.0
Inheritance Tax (gross)	34	9	(25)	333	306	(27)	(8.1)
Liquor Gallonage Taxes	14	15	1	167	170	3	1.8
Insurance Tax and Fees	63	78	15	353	398	45	12.7
Corporation Franchise Tax and Fees	13	20	7	211	207	(4)	(1.9)
Investment Income	2	4	2	25	24	(1)	(4.0)
Cook County IGT	0	0	0	244	244	0	0.0
Other	181	160	(21)	735	574	(161)	(21.9)
Total, Other Sources	416	383	(33)	3,427	3,202	(225)	(6.6)
Total, Cash Receipts	\$ 2,701	\$ 2,531	\$ (170)	\$ 29,576	\$ 26,127	\$ (3,449)	(11.7) %
Transfers In:							
Lottery Fund	\$ 72	\$ 59	\$ (13)	\$ 678	\$ 677	\$ (1)	(0.1) %
State Gaming Fund	20	17	(3)	292	277	(15)	(5.1)
Other Funds	151	58	(93)	2,011	627	(1,384)	(68.8)
Total, Transfers In	\$ 243	\$ 134	\$ (109)	\$ 2,981	\$ 1,581	\$ (1,400)	(47.0) %
Total, State Sources	\$ 2,944	\$ 2,665	\$ (279)	\$ 32,557	\$ 27,708	\$ (4,849)	(14.9) %
Federal Sources	\$ 105	\$ 212	\$ 107	\$ 3,331	\$ 2,665	\$ (666)	(20.0) %
Total, Base Revenues	\$ 3,049	\$ 2,877	\$ (172)	\$ 35,888	\$ 30,373	\$ (5,515)	(15.4) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Interfund Borrowing	454	0	(454)	454	0	(454)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	275	125	(150)	(54.5)
Total, Revenues	\$ 3,503	\$ 2,877	\$ (626)	\$ 36,617	\$ 30,498	\$ (6,119)	(16.7) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 926	\$ 1,243	\$ 317	\$ 7,173	\$ 6,020	\$ (1,153)	(16.1) %
State Board of Education	615	676	61	6,551	6,515	(36)	(0.5)
Human Services	258	219	(39)	3,381	3,257	(124)	(3.7)
Teachers Retirement	255	324	69	3,537	3,869	332	9.4
University Retirement System	129	178	49	1,352	1,416	64	4.7
All Other Higher Education	33	18	(15)	1,940	622	(1,318)	(67.9)
Corrections	120	74	(46)	1,345	948	(397)	(29.5)
State Employees Retirement System	95	111	16	1,149	1,367	218	19.0
Central Management Services	5	6	1	1,644	31	(1,613)	(98.1)
Children and Family Services	29	27	(2)	680	616	(64)	(9.4)
Aging	51	58	7	919	638	(281)	(30.6)
State Police	26	24	(2)	289	235	(54)	(18.7)
All Other	132	116	(16)	1,689	1,390	(299)	(17.7)
Total	\$ 2,674	\$ 3,074	\$ 400	\$ 31,649	\$ 26,924	\$ (4,725)	(14.9) %
Regular Transfers Out	377	714	337	4,616	4,724	108	2.3
Prior Year Adjustments	0	1	1	(11)	(12)	(1)	9.1
Vouchers Payable Adjustment	(165)	(1,000)	(835)	(459)	(888)	(429)	N/A
Total, Base Expenditures	\$ 2,886	\$ 2,789	\$ (97)	\$ 35,795	\$ 30,748	\$ (5,047)	(14.1) %
Transfers to Repay Budget Stabilization	275	125	(150)	275	125	(150)	(54.5)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,161	2,914	(247)	36,070	30,873	(5,197)	(14.4)
AVAILABLE CASH BALANCE, ENDING	\$ 621	\$ 246	\$ (375)	\$ 621	\$ 246	\$ (375)	(60.4) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2015	2016		FY 2015	FY 2016	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 106	\$ 93	\$ (13)	\$ 12	\$ 490	\$ 478	3,983.3 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,118	\$ 1,210	\$ 92	\$ 14,271	\$ 11,883	\$ (2,388)	(16.7) %
Corporate	311	98	(213)	2,489	1,829	(660)	(26.5)
Total, Income Taxes	1,429	1,308	(121)	16,760	13,712	(3,048)	(18.2)
Sales Taxes	530	551	21	6,033	6,057	24	0.4
Other Sources:							
Public Utility Taxes	73	61	(12)	921	845	(76)	(8.3)
Cigarette Taxes	21	21	0	257	254	(3)	(1.2)
Inheritance Tax (gross)	34	9	(25)	333	306	(27)	(8.1)
Liquor Gallonage Taxes	14	15	1	167	169	2	1.2
Insurance Tax and Fees	63	78	15	353	398	45	12.7
Corporation Franchise Tax and Fees	13	20	7	211	207	(4)	(1.9)
Investment Income	2	4	2	24	24	0	0.0
Cook County IGT	0	0	0	244	244	0	0.0
Other	180	159	(21)	732	568	(164)	(22.4)
Total, Other Sources	400	367	(33)	3,242	3,015	(227)	(7.0)
Total, Cash Receipts	\$ 2,359	\$ 2,226	\$ (133)	\$ 26,035	\$ 22,784	\$ (3,251)	(12.5) %
Transfers In	151	58	(93)	2,009	625	(1,384)	(68.9)
Total, State Sources	\$ 2,510	\$ 2,284	\$ (226)	\$ 28,044	\$ 23,409	\$ (4,635)	(16.5) %
Federal Sources	\$ 105	\$ 212	\$ 107	\$ 3,331	\$ 2,665	\$ (666)	(20.0) %
Total, Base Revenues	\$ 2,615	\$ 2,496	\$ (119)	\$ 31,375	\$ 26,074	\$ (5,301)	(16.9) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Interfund Borrowing	454	0	(454)	454	0	(454)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	275	125	(150)	(54.5)
Total, Revenues	\$ 3,069	\$ 2,496	\$ (573)	\$ 32,104	\$ 26,199	\$ (5,905)	(18.4) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 926	\$ 1,243	317	\$ 7,173	6,020	(1,153)	(16.1)
State Board of Education	455	461	6	2,326	2,503	177	7.6
Human Services	258	219	(39)	3,381	3,257	(124)	(3.7)
University Retirement System	129	178	49	1,347	1,416	69	5.1
All Other Higher Education	9	0	(9)	514	12	(502)	(97.7)
Corrections	120	74	(46)	1,345	948	(397)	(29.5)
State Employees Retirement System	95	111	16	1,149	1,367	218	19.0
Central Management Services	5	6	1	1,644	31	(1,613)	(98.1)
Children and Family Services	29	27	(2)	680	616	(64)	(9.4)
Aging	51	58	7	919	638	(281)	(30.6)
State Police	26	24	(2)	289	235	(54)	(18.7)
All Other	137	128	(9)	1,747	1,408	(339)	(19.4)
Total	\$ 2,240	\$ 2,529	\$ 289	\$ 22,514	\$ 18,451	\$ (4,063)	(18.0) %
Regular Transfers Out	593	981	388	9,371	9,103	(268)	(2.9)
Prior Year Adjustments	(1)	(1)	0	(12)	(12)	0	0.0
Vouchers Payable Adjustment	(422)	(1,109)	(687)	(522)	(1,042)	(520)	N/A
Total, Base Expenditures	\$ 2,410	\$ 2,400	\$ (10)	\$ 31,351	\$ 26,500	\$ (4,851)	(15.5) %
Transfers to Repay Budget Stabilization	275	125	(150)	275	125	(150)	(54.5)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,685	2,525	(160)	31,626	26,625	(5,001)	(15.8)
AVAILABLE CASH BALANCE, ENDING	\$ 490	\$ 64	\$ (426)	\$ 490	\$ 64	\$ (426)	(86.9) %