

# Comptroller's Quarterly

JUDY BAAR TOPINKA, COMPTROLLER

Edition 11, October 2013

## STATE CLEARS OUT LAST YEAR'S BILLS *Earliest close of expenses since 2009*

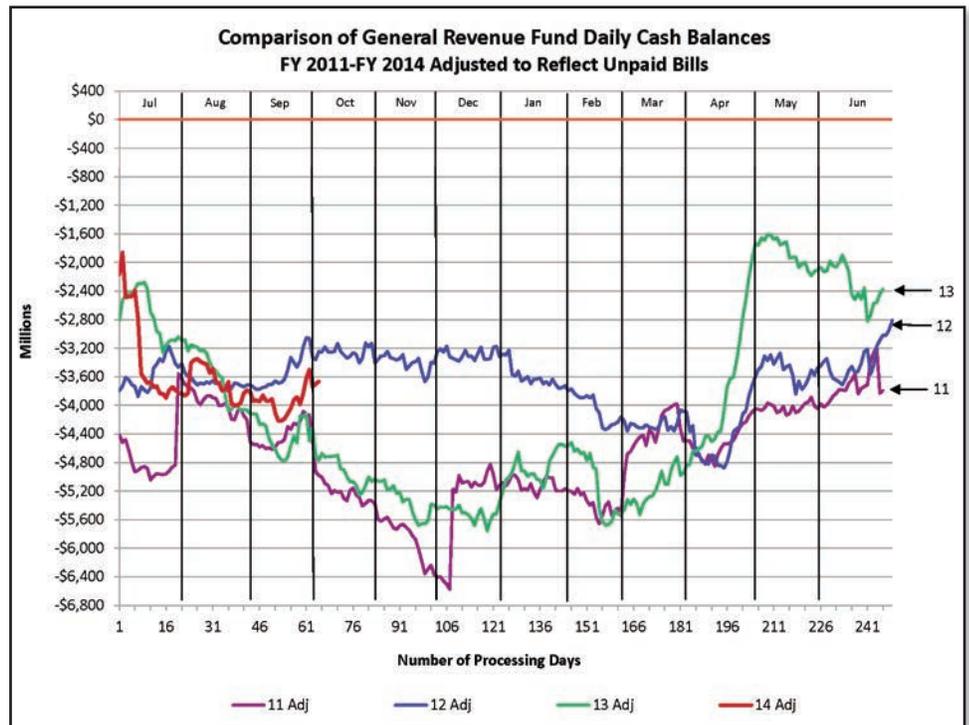
Stronger first quarter revenues, coupled with fewer lapse period transactions, have allowed Illinois to pay all of its General Funds bills from the previous fiscal year earlier than at any time since 2009.

The State has benefited from unexpected growth in its base revenues. Specifically, a surge in income tax receipts in April 2013 to take advantage of tax year 2012 rates appears to have increased estimated tax payments this September. Sales tax revenues have also grown compared to recent first quarters, and the state has further benefited from the unexpected transfer of \$397 million from the Income Tax Refund Fund.

At the same time, General Funds lapse period transactions through the first quarter – the payables on June 30th and vouchers presented during the lapse period to date – have totaled \$4.177 billion this year, compared to \$4.999 billion last year. Those numbers could change, however, as the Department of Healthcare and Family Services still has usable fiscal year 2013 Medicaid appropriations open through the end of the calendar year.

The General Funds backlog of unpaid bills at the Comptroller's Office (IOC) at the end of September totaled \$4.603 billion. While this is \$1.323 billion higher than at the end of fiscal year 2013, it is \$1.324 billion less than this time last year. That difference can be tied in large part to the \$1.3 billion in unexpected revenue brought in by the state last income tax season, which reduced the bills carried over into fiscal year 2014.

At the end of the first quarter of fiscal year 2013, the backlog included \$1.394



billion in prior year liabilities while this fiscal year all current prior year liabilities have been paid.

The current backlog at the IOC consists of \$3.710 billion in the General Revenue Fund, \$471 million in the Education Assistance Fund and \$423 million in the Common School Fund. The backlog of bills at the IOC accounts for only what has been submitted for processing and not what is held at other state agencies. When estimates of bills being held at state agencies are included, the state's total bill backlog approximates \$7.5 billion.

The chart of adjusted General Revenue Fund (GRF) balances on September 30, 2013 shows a negative balance of \$3.667 billion. At this time last year, the adjusted GRF balance was a negative \$4.703

billion. This does not include the other General Funds which have a slightly lower backlog than last year.

### BASE REVENUES

The combination of increases in income tax receipts, sales tax receipts, all other sources, and transfers in accounted for the revenue growth in the first quarter while offsetting the decline in federal revenues. General Funds total base revenue increased \$486 million, or 6.1 percent. Factors impacting the state's base revenues in the first quarter include:

- **INCOME TAX:** Individual income tax receipts grew \$205 million, or 6.0 percent, in the first quarter of fiscal year 2014, while corporate income tax rev-

venues increased by \$75 million, or 13.4 percent. Much of the growth appears to be tied to an increase in estimated payments following high 2012 tax liability, but a reduction in the percentage allocated to the Refund Fund also impacted income tax receipts.

- **SALES TAX:** Sales tax revenues increased by \$139 million, or 7.7 percent, as economic growth continued, apparently assisted by stronger automotive sales.
- **TRANSFERS:** A transfer of \$397 million from the Income Tax Refund Fund was the leading factor in the growth in transfers in. This transfer offset the \$214 million decline in transfers from the FY13/FY14 Backlog Payment Fund. Lottery Fund transfers were up \$3 million and riverboat gambling transfers decreased \$5 million. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues decreased \$184 million, or 20.1 percent, so far in fiscal year 2014. The decline was due to a decrease in the payment of Medicaid bills eligible for reimbursement in the lapse period.
- **OTHER RECEIPTS:** All other state receipts are up \$62 million, or 9.2 percent from the previous fiscal year. Specifically, ‘all other’ receipts increased \$72 million due to court settlement proceeds (Attorney General \$54 million and DHFS \$18 million) and cigarette taxes and insurance taxes grew by \$20 million each. These increases were offset by a decrease in inheritance tax receipts of \$48 million.

## BASE EXPENDITURES

General Funds base spending increased by \$725 million, or 9.0 percent, through the first quarter of fiscal year 2014. Spending increased by \$168 million in July, increased \$413 million in August, and increased \$144 million in September.

- **SOCIAL SERVICES:** Vouchers presented by the Department of Healthcare

and Family Services were down \$1.056 billion, or 46.1 percent, through the first quarter. Approximately half of that decrease was due to fewer lapse period vouchers this year. Vouchers presented by the Department of Human Services were down \$193 million, or 17.8 percent, through September, and Department of Children and Family Services expenditures were down \$72 million (26.8 percent) after three months. Department on Aging vouchers were down \$76 million (22.6 percent) so far for the year.

- **EDUCATION:** Vouchers presented by the State Board of Education were up \$30 million, or 2.2 percent, through September. Appropriations for General State Aid for schools increased \$155 million this fiscal year. Vouchers presented by higher education agencies, excluding the retirement system, were up \$15 million or 2.6 percent.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$177 million (25.0 percent) through September and University Retirement System expenditures decreased \$60 million. Vouchers from the State Employees Retirement System were up \$6 million.
- **ALL OTHER:** CMS had the largest increase in vouchers presented for payment among the major agencies of \$865 million due to over 98% of the agency’s GRF appropriation (primarily for employee health insurance) being sent to the IOC. These pending transfers are a significant component of the backlog. “All other” spending was down \$235 million, due to a \$264 million decrease in spending by the IOC as a vouchered transfer to the FY13 Backlog Payment Fund was not repeated.
- **TRANSFERS OUT:** Transfers out for three months of fiscal year 2014 increased by \$250 million, or 22.7 percent, when compared to those released last year. At the end of the first quarter last year there was a backlog of prior year transfers while this year there is none.

## WHAT LIES AHEAD

While there have been some positive circumstances that impacted the backlog of bills in the last six months, the state remains in a financially precarious position. Income tax revenues have posted significant gains in the first quarter due to an increase in estimated payments. However, as previously mentioned, due to the unusual surge in income taxes last April, current estimates for individual and corporate income tax revenue are expected to decline in the last quarter of the fiscal year. With the uncertain outlook in the economy, sales taxes may not be able to maintain the growth rate of the first quarter.

On the spending side, General Funds appropriations for fiscal year 2014 are up \$322 million. This increase in appropriations will exacerbate the backlog problem as General Funds revenues are estimated to decline for the fiscal year. The \$1.236 billion decrease in appropriations from the Education Assistance Fund, as State University Retirement System appropriations were switched to GRF this year, should help reduce the backlog in the Education Assistance Fund this year at the expense of the GRF backlog.

The backlog is expected to continue to grow over the next few months as in previous years, although the exact amount of the backlog at the IOC will depend on vouchering patterns of the state agencies. For instance, the vouchering of almost all the employee health insurance transfers in July has inflated the current backlog, but was more than offset by the decrease in DHFS Medicaid vouchers in the first quarter.

Looking ahead, the fiscal year 2014 budget could counteract much of the fiscal progress made last fiscal year. If the forecasted decline in revenues materializes, and the state spends its increased appropriations, the financial position of the state will deteriorate. That path is particularly troubling as fiscal year 2014 is the last full year of added revenue from the temporary income tax increase. ■

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	September		Change	Three Months		Change	
	2012	2013		FY 2013	FY 2014	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 181	\$ 231	\$ 50	\$ 40	\$ 154	\$ 114	285.0 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,288	\$ 1,426	\$ 138	\$ 3,404	\$ 3,609	\$ 205	6.0 %
Corporate	429	507	78	561	636	75	13.4
Total, Income Taxes	1,717	1,933	216	3,965	4,245	280	7.1
Sales Taxes	601	633	32	1,800	1,939	139	7.7
Other Sources:							
Public Utility Taxes	79	70	(9)	245	239	(6)	(2.4)
Cigarette Taxes	34	29	(5)	68	88	20	29.4
Inheritance Tax (gross)	19	12	(7)	94	46	(48)	(51.1)
Liquor Gallonage Taxes	14	14	0	43	43	0	0.0
Insurance Tax and Fees	44	63	19	66	86	20	30.3
Corporation Franchise Tax and Fees	17	21	4	49	52	3	6.1
Investment Income	0	2	2	3	4	1	33.3
Cook County IGT	0	0	0	0	0	0	0.0
Other	24	100	76	103	175	72	69.9
Total, Other Sources	231	311	80	671	733	62	9.2
Total, Cash Receipts	\$ 2,549	\$ 2,877	\$ 328	\$ 6,436	\$ 6,917	\$ 481	7.5 %
Transfers In:							
Lottery Fund	\$ 55	\$ 56	\$ 1	\$ 140	\$ 143	\$ 3	2.1 %
State Gaming Fund	51	46	(5)	113	108	(5)	(4.4)
Other Funds	289	32	(257)	392	583	191	48.7
Total, Transfers In	\$ 395	\$ 134	\$ (261)	\$ 645	\$ 834	\$ 189	29.3 %
Total, State Sources	\$ 2,944	\$ 3,011	\$ 67	\$ 7,081	\$ 7,751	\$ 670	9.5 %
Federal Sources	\$ 331	\$ 255	\$ (76)	\$ 916	\$ 732	\$ (184)	(20.1) %
<b>Total, Base Revenues</b>	<b>\$ 3,275</b>	<b>\$ 3,266</b>	<b>\$ (9)</b>	<b>\$ 7,997</b>	<b>\$ 8,483</b>	<b>\$ 486</b>	<b>6.1 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,275	\$ 3,266	\$ (9)	\$ 8,272	\$ 8,758	\$ 486	5.9 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 879	\$ 572	\$ (307)	\$ 2,289	\$ 1,233	\$ (1,056)	(46.1) %
State Board of Education	775	790	15	1,378	1,408	30	2.2
Human Services	335	256	(79)	1,085	892	(193)	(17.8)
Teachers Retirement	234	295	61	708	885	177	25.0
University Retirement System	118	126	8	361	301	(60)	(16.6)
All Other Higher Education	287	278	(9)	568	583	15	2.6
Corrections	102	89	(13)	322	317	(5)	(1.6)
State Employees Retirement System	94	91	(3)	268	274	6	2.2
Central Management Services	181	11	(170)	495	1,360	865	174.7
Children and Family Services	81	25	(56)	269	197	(72)	(26.8)
Aging	72	66	(6)	337	261	(76)	(22.6)
State Police	16	21	5	61	67	6	9.8
All Other	113	123	10	719	484	(235)	(32.7)
Total	\$ 3,287	\$ 2,743	\$ (544)	\$ 8,860	\$ 8,262	\$ (598)	(6.7) %
Regular Transfers Out	313	681	368	1,101	1,351	250	22.7
Prior Year Adjustments	0	(2)	(2)	(3)	(5)	(2)	66.7
Vouchers Payable Adjustment	(409)	(87)	322	(1,933)	(858)	1,075	N/A
<b>Total, Base Expenditures</b>	<b>\$ 3,191</b>	<b>\$ 3,335</b>	<b>\$ 144</b>	<b>\$ 8,025</b>	<b>\$ 8,750</b>	<b>\$ 725</b>	<b>9.0 %</b>
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	111	0	(111)	133	0	(133)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,302	3,335	33	8,158	8,750	592	7.3
AVAILABLE CASH BALANCE, ENDING	\$ 154	\$ 162	\$ 8	\$ 154	\$ 162	\$ 8	5.2 %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	September		Change	Three Months		Change	
	2012	2013		FY 2013	FY 2014	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 69	\$ 117	\$ 48	\$ 16	\$ 35	\$ 19	118.8 %
<b>Revenues:</b>							
<b>State Sources:</b>							
<b>Cash Receipts:</b>							
<b>Income Taxes:</b>							
Individual	\$ 1,194	\$ 1,322	\$ 128	\$ 3,155	\$ 3,345	\$ 190	6.0 %
Corporate	397	470	73	521	590	69	13.2
Total, Income Taxes	1,591	1,792	201	3,676	3,935	259	7.0
Sales Taxes	451	476	25	1,349	1,457	108	8.0
<b>Other Sources:</b>							
Public Utility Taxes	72	64	(8)	222	218	(4)	(1.8)
Cigarette Taxes	27	22	(5)	54	67	13	24.1
Inheritance Tax (gross)	19	12	(7)	94	46	(48)	(51.1)
Liquor Gallonage Taxes	14	14	0	43	43	0	0.0
Insurance Tax and Fees	44	63	19	66	86	20	30.3
Corporation Franchise Tax and Fees	17	21	4	49	52	3	6.1
Investment Income	0	2	2	3	4	1	33.3
Cook County IGT	0	0	0	0	0	0	0.0
Other	24	100	76	102	174	72	70.6
Total, Other Sources	217	298	81	633	690	57	9.0
Total, Cash Receipts	\$ 2,259	\$ 2,566	\$ 307	\$ 5,658	\$ 6,082	\$ 424	7.5 %
Transfers In	289	31	(258)	392	582	190	48.5
Total, State Sources	\$ 2,548	\$ 2,597	\$ 49	\$ 6,050	\$ 6,664	\$ 614	10.1 %
Federal Sources	\$ 331	\$ 255	\$ (76)	\$ 916	\$ 732	\$ (184)	(20.1) %
<b>Total, Base Revenues</b>	<b>\$ 2,879</b>	<b>\$ 2,852</b>	<b>\$ (27)</b>	<b>\$ 6,966</b>	<b>\$ 7,396</b>	<b>\$ 430</b>	<b>6.2 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 2,879	\$ 2,852	\$ (27)	\$ 7,241	\$ 7,671	\$ 430	5.9 %
<b>Expenditures:</b>							
<b>By Agency</b>							
Healthcare and Family Services	\$ 879	\$ 572	(307)	2,289	1,233	(1,056)	(46.1)
State Board of Education	386	391	5	598	604	6	1.0
Human Services	335	256	(79)	1,085	892	(193)	(17.8)
University Retirement System	1	126	125	1	301	300	30,000.0
All Other Higher Education	100	81	(19)	112	124	12	10.7
Corrections	102	89	(13)	322	317	(5)	(1.6)
State Employees Retirement System	94	91	(3)	268	274	6	2.2
Central Management Services	181	11	(170)	495	1,360	865	174.7
Children and Family Services	81	25	(56)	269	197	(72)	(26.8)
Aging	72	66	(6)	337	261	(76)	(22.6)
State Police	16	21	5	61	67	6	9.8
All Other	116	126	10	730	493	(237)	(32.5)
Total	\$ 2,363	\$ 1,855	\$ (508)	\$ 6,567	\$ 6,123	\$ (444)	(6.8) %
Regular Transfers Out	880	1,128	248	2,089	2,596	507	24.3
Prior Year Adjustments	0	(2)	(2)	7	(3)	(10)	(142.9)
Vouchers Payable Adjustment	(447)	(55)	392	(1,580)	(1,053)	527	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,796</b>	<b>\$ 2,926</b>	<b>\$ 130</b>	<b>\$ 7,083</b>	<b>\$ 7,663</b>	<b>\$ 580</b>	<b>8.2 %</b>
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	111	0	(111)	133	0	(133)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,907	2,926	19	7,216	7,663	447	6.2
AVAILABLE CASH BALANCE, ENDING	\$ 41	\$ 43	\$ 2	\$ 41	\$ 43	\$ 2	4.9 %