

Comptroller's Quarterly

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TWO YEARS LATER: BACKLOG GROWS

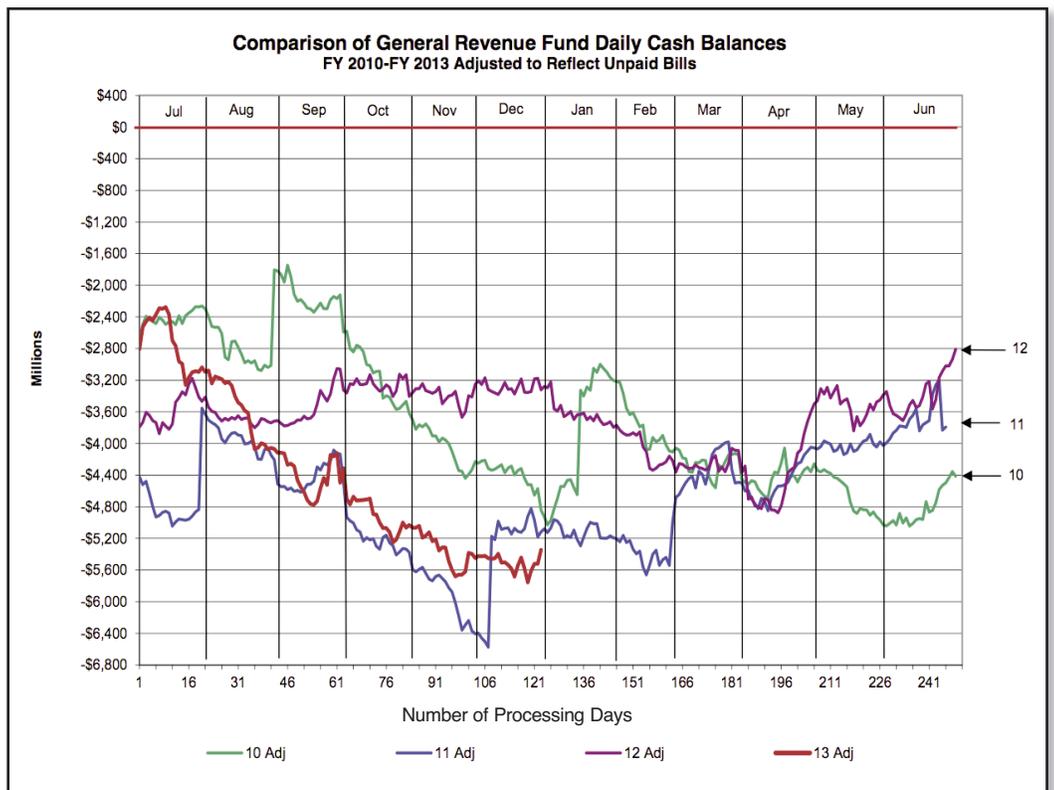
General Assembly addresses appropriation shortfalls

Two years after Illinois raised individual and corporate tax rates, the state continues to suffer through substantial bill backlogs and payment delays. Recent action by the General Assembly, however, ensured sufficient appropriations will be available to fund certain critical state services and programs through the end of the fiscal year.

Two quarters in to fiscal year 2013, the backlog of unpaid bills from General Funds in the Comptroller's Office (IOC) totaled \$6.888 billion and pending vouchers dated back to the end of August 2012. When estimates of bills being held at state agencies were added to what was held at IOC, the state bill backlog exceeded \$9 billion.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on December 31, 2012 to be negative \$5.345 billion, compared to negative \$3.281 billion last year. Significant amounts of bills were on hold in the Education Assistance and Common School Funds.

The General Funds backlog grew by \$961 million during the second quarter and is \$2.6 billion higher than it was at this time last year. It is worth noting that the state ended fiscal year 2012 in June with \$3.656 billion in vouchers and unpaid bills – and the IOC received \$1.368 billion in additional fiscal year 2012 vouchers. In all, more than \$5.0 billion in current year revenues was used to pay prior fiscal year liabilities.



Moreover, the state was on track to run out of appropriation power for critical state services before the end of the fiscal year on June 30, 2013. Specifically, spending power for Department on Aging's Community Care program, the Department of Children & Family Services (DCFS), workers compensation, certain Department of Human Services (DHS) lines and the state's Health Insurance Reserve Fund was expected to be depleted before the end of the year. However, a supplemental spending bill recently enacted has addressed some of these shortfalls for fiscal year 2013. Public Act 98-0001 includes \$550 million from GRF for state employee

health insurance, DHS mental health programs, and increased spending authority for workers compensation and DCFS.

In all, base revenues increased 7.1 percent through the first half of the fiscal year as net income tax receipts increased 7.9 percent. Base expenditures increased 5.4 percent, although the amount of vouchers presented by several large agencies increased at much higher rates, translating into a higher backlog of bills at the Comptroller's office. Both revenues and spending were impacted by budget legislation requiring the IOC to pay \$264 million from GRF into the FY 13 Backlog Payment Fund and then transfer that amount back to GRF.

BASE REVENUES

Revenue growth through the second quarter was fueled by increases in income tax receipts, transfers in, and federal revenues. General Funds total base revenue increased \$1.057 billion, or 7.1 percent. A change in the percentage allocated to the Refund Fund impacted income tax receipts. Specifically, individual income tax receipts grew \$316 million or 4.8 percent in the first six months of fiscal year 2013, while corporate income tax revenues increased by \$276 million or 29.7 percent. Including the Refund Fund, gross individual income tax receipts increased \$429 million and gross corporate income tax receipts grew \$275 million.

Other factors impacting the state's base revenues so far this year include:

- **SALES TAX:** Although economic growth is continuing, sales tax revenues increased by only \$40 million or 1.1 percent.
- **TRANSFERS:** A transfer of \$264 million from the FY13 Backlog Payment Fund was the leading factor in growth of transfers in this fiscal year. This transfer offset the \$255 million decline in transfers from the Capital Projects Fund. Lottery Fund transfers were up \$8 million and riverboat gambling transfers increased \$14 million, or 6.8 percent. Those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues increased \$361 million, or 27.2 percent, so far in fiscal year 2013. The growth is due to an increase in the payment of Medicaid bills eligible for reimbursement in the lapse period.
- **OTHER RECEIPTS:** All other state receipts were down \$8 million, or 0.6 percent from the previous fiscal year. Specifically, the inheritance tax receipts increase of \$76 million was offset by decreases in public utility taxes (\$20 million), while the other sources line decreased due to the final payment of \$73 million from the sale of the tenth riverboat license included in last fiscal year.

BASE EXPENDITURES

General Funds base spending increased by \$812 million, or 5.4 percent, through the second quarter of fiscal year 2013. Spending increased by \$103 million in October, \$106 million in November, and \$250 million in December.

- **SOCIAL SERVICES:** The Department of Healthcare and Family Services had the largest increase in vouchers presented for payment among the major agencies: \$1.6 billion or 62.7 percent. Most of that increase was from current year appropriations which are up only \$84 million with the transfer of employee health insurance to the Department of Central Management Services (CMS). Vouchers presented by the Department of Human Services were up \$92 million, or 5.0 percent through the second quarter while appropriations are down \$159 million. Vouchers presented by the Department on Aging were up \$115 million, or 25.0 percent, through the first half of the year with over 69 percent of appropriations already expended.
- **EDUCATION:** Vouchers presented by the State Board of Education were down \$164 million, or 5.0 percent, through December. Appropriations for General State Aid for schools decreased \$173 million. Vouchers presented by higher education agencies, excluding the retirement system, were down \$25 million, or 1.9 percent, in the first half of the year.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$145 million and University Retirement System expenditures increased \$242 million. Vouchers from the State Employees Retirement System were up \$74 million.
- **ALL OTHER:** Spending by CMS increased by \$506 million due to the transfer of state employee health insurance appropriations to the agency this year, with over 97 percent of current year appropriations already spent. "All other" spending was up due to the payment of \$264 million into the FY 13 Backlog Payment Fund.

- **TRANSFERS OUT:** Transfers out for six months of fiscal year 2013 increased by \$319 million, or 14.4 percent, when compared to last year. This does not include the final transfer of \$133 million from the fiscal year 2011 interfund borrowing that was repaid this year.

WHAT LIES AHEAD

Significant state payment backlogs are expected to remain throughout the balance of the fiscal year. If current revenue and spending projections (incorporating the appropriation increases just authorized) hold, the end of year backlog at the IOC is expected to be over \$500 million higher than at the end of fiscal year 2012.

Even with the passage of P.A. 98-0001, there is likely to be continued pressure to increase appropriations during the spring legislative session. Requests are likely to be considered for additional GRF spending for Medicaid, senior citizen services, and transfers to other state funds, among others. The GRF appropriation line for Aging's Community Care Program, which provides in-home and community services to seniors, was over 70% expended by the end of December.

Additionally, the supplemental for state employee health insurance may not be enough for that program to avoid further payment delays. The fiscal year 2013 GRF appropriation for state employee health insurance will now total \$1.1 billion, still below the fiscal year 2012 GRF appropriation total of \$1.4 billion.

However, increased spending not accompanied by additional revenues or reductions in spending elsewhere will increase the projected end of year backlog at IOC nearly dollar for dollar. Decision makers will continue to be faced with difficult budget decisions throughout the spring and during the crafting of the fiscal year 2014 budget. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2011	2012		FY 2012	FY 2013	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 203	\$ 150	\$ (53)	\$ 469	\$ 40	\$ (429)	(91.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,145	\$ 1,210	\$ 65	\$ 6,524	\$ 6,840	\$ 316	4.8 %
Corporate	354	445	91	928	1,204	276	29.7
Total, Income Taxes	1,499	1,655	156	7,452	8,044	592	7.9
Sales Taxes	635	655	20	3,655	3,695	40	1.1
Other Sources:							
Public Utility Taxes	78	82	4	503	483	(20)	(4.0)
Cigarette Taxes	30	30	0	177	175	(2)	(1.1)
Inheritance Tax (gross)	32	23	(9)	82	158	76	92.7
Liquor Gallonage Taxes	15	14	(1)	84	86	2	2.4
Insurance Tax and Fees	63	69	6	148	158	10	6.8
Corporation Franchise Tax and Fees	13	15	2	100	107	7	7.0
Investment Income	0	1	1	10	8	(2)	(20.0)
Cook County IGT	0	0	0	56	56	0	0.0
Other	40	30	(10)	276	197	(79)	(28.6)
Total, Other Sources	271	264	(7)	1,436	1,428	(8)	(0.6)
Total, Cash Receipts	\$ 2,405	\$ 2,574	\$ 169	\$ 12,543	\$ 13,167	\$ 624	5.0 %
Transfers In:							
Lottery Fund	\$ 61	\$ 63	\$ 2	\$ 300	\$ 308	\$ 8	2.7 %
State Gaming Fund	53	34	(19)	207	221	14	6.8
Other Funds	42	52	10	471	521	50	10.6
Total, Transfers In	\$ 156	\$ 149	\$ (7)	\$ 978	\$ 1,050	\$ 72	7.4 %
Total, State Sources	\$ 2,561	\$ 2,723	\$ 162	\$ 13,521	\$ 14,217	\$ 696	5.1 %
Federal Sources	\$ 195	\$ 296	\$ 101	\$ 1,329	\$ 1,690	\$ 361	27.2 %
Total, Base Revenues	\$ 2,756	\$ 3,019	\$ 263	\$ 14,850	\$ 15,907	\$ 1,057	7.1 %
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	\$ 2,756	\$ 3,019	\$ 263	\$ 15,125	\$ 16,182	\$ 1,057	7.0 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 430	\$ 486	\$ 56	\$ 2,595	\$ 4,223	\$ 1,628	62.7 %
State Board of Education	824	787	(37)	3,261	3,097	(164)	(5.0)
Human Services	317	288	(29)	1,840	1,932	92	5.0
Teachers Retirement	209	234	25	1,263	1,408	145	11.5
University Retirement System	82	117	35	358	600	242	67.6
All Other Higher Education	228	247	19	1,346	1,321	(25)	(1.9)
Corrections	97	105	8	623	624	1	0.2
State Employees Retirement System	75	87	12	454	528	74	16.3
Central Management Services	3	74	71	69	575	506	733.3
Children and Family Services	90	80	(10)	492	460	(32)	(6.5)
Aging	79	75	(4)	460	575	115	25.0
State Police	28	27	(1)	142	131	(11)	(7.7)
All Other	135	128	(7)	954	1,098	144	15.1
Total	\$ 2,597	\$ 2,735	\$ 138	\$ 13,857	\$ 16,572	\$ 2,715	19.6 %
Regular Transfers Out	448	643	195	2,213	2,532	319	14.4
Prior Year Adjustments	0	(1)	(1)	(78)	(5)	73	(93.6)
Vouchers Payable Adjustment	(264)	(346)	(82)	(853)	(3,148)	(2,295)	N/A
Total, Base Expenditures	\$ 2,781	\$ 3,031	\$ 250	\$ 15,139	\$ 15,951	\$ 812	5.4 %
Transfers to Repay Budget Stabilization	0	0	0	275	0	(275)	(100.0)
Transfers to Repay Interfund Borrowing	34	0	(34)	36	133	97	269.4
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,815	3,031	216	15,450	16,084	634	4.1
AVAILABLE CASH BALANCE, ENDING	\$ 144	\$ 138	\$ (6)	\$ 144	\$ 138	\$ (6)	(4.2) %

GENERAL REVENUE FUND TRANSACTIONS

(Dollars in Millions)

	December		Change	Six Months		Change	
	2011	2012		FY 2012	FY 2013	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 35	\$ 35	\$ 0	\$ 7	\$ 16	\$ 9	128.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,061	\$ 1,122	\$ 61	\$ 6,048	\$ 6,340	\$ 292	4.8 %
Corporate	329	412	83	860	1,117	257	29.9
Total, Income Taxes	1,390	1,534	144	6,908	7,457	549	7.9
Sales Taxes	476	491	15	2,740	2,769	29	1.1
Other Sources:							
Public Utility Taxes	69	74	5	454	435	(19)	(4.2)
Cigarette Taxes	21	24	3	121	139	18	14.9
Inheritance Tax (gross)	32	23	(9)	82	158	76	92.7
Liquor Gallonage Taxes	15	14	(1)	84	86	2	2.4
Insurance Tax and Fees	63	69	6	148	158	10	6.8
Corporation Franchise Tax and Fees	13	15	2	100	107	7	7.0
Investment Income	0	1	1	9	8	(1)	(11.1)
Cook County IGT	0	0	0	56	56	0	0.0
Other	40	30	(10)	274	195	(79)	(28.8)
Total, Other Sources	253	250	(3)	1,328	1,342	14	1.1
Total, Cash Receipts	\$ 2,119	\$ 2,275	\$ 156	\$ 10,976	\$ 11,568	\$ 592	5.4 %
Transfers In	42	52	10	471	520	49	10.4
Total, State Sources	\$ 2,161	\$ 2,327	\$ 166	\$ 11,447	\$ 12,088	\$ 641	5.6 %
Federal Sources	\$ 195	\$ 296	\$ 101	\$ 1,329	\$ 1,690	\$ 361	27.2 %
Total, Base Revenues	\$ 2,356	\$ 2,623	\$ 267	\$ 12,776	\$ 13,778	\$ 1,002	7.8 %
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	\$ 2,356	\$ 2,623	\$ 267	\$ 13,051	\$ 14,053	\$ 1,002	7.7 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 430	\$ 486	56	2,595	4,223	1,628	62.7
State Board of Education	402	400	(2)	1,146	1,155	9	0.8
Human Services	317	288	(29)	1,840	1,932	92	5.0
Higher Education	15	20	5	260	233	(27)	(10.4)
Corrections	97	105	8	623	624	1	0.2
State Employees Retirement System	75	87	12	454	528	74	16.3
Central Management Services	3	74	71	69	575	506	733.3
Children and Family Services	90	80	(10)	492	460	(32)	(6.5)
Aging	79	75	(4)	460	575	115	25.0
State Police	28	27	(1)	142	131	(11)	(7.7)
All Other	149	132	(17)	973	1,117	144	14.8
Total	\$ 1,685	\$ 1,774	\$ 89	\$ 9,054	\$ 11,553	\$ 2,499	27.6 %
Regular Transfers Out	841	1,099	258	3,625	4,815	1,190	32.8
Prior Year Adjustments	0	(1)	(1)	(72)	4	76	(105.6)
Vouchers Payable Adjustment	(188)	(242)	(54)	121	(2,464)	(2,585)	N/A
Total, Base Expenditures	\$ 2,338	\$ 2,630	\$ 292	\$ 12,728	\$ 13,908	\$ 1,180	9.3 %
Transfers to Repay Budget Stabilization	0	0	0	275	0	(275)	(100.0)
Transfers to Repay Interfund Borrowing	34	0	(34)	36	133	97	269.4
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,372	2,630	258	13,039	14,041	1,002	7.7
AVAILABLE CASH BALANCE, ENDING	\$ 19	\$ 28	\$ 9	\$ 19	\$ 28	\$ 9	47.4 %