

# Comptroller's Quarterly

DANIEL W. HYNES, COMPTROLLER

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## Fiscal Position Deteriorates Despite Improving Economic Revenues

Through the halfway point of fiscal year 2005, the state's backlog of unpaid bills continues to mount. The dollar amount held (over \$1.5 billion) and the number of days payments are delayed (30 days) have increased significantly since the first quarter, even while the economy and the revenues of related sources increased as expected in the first half of the fiscal year. This growth, however, was unable to offset the decline from one-time revenues collected last fiscal year. Fiscal year-to-date, both General Funds revenues and expenditures have been greatly impacted by the loss of federal funds and the short-term borrowing for Medicaid in June of 2004.

Last fiscal year, the federal Jobs and Growth Tax Relief Reconciliation Act temporarily increased the Medicaid reimbursement rate and granted the state \$422 million in additional aid. As a result, federal sources through six months of fiscal year 2005 now are down \$763 million compared to last year. Another fiscal year 2004 source of one-time revenues were the transfers from the Pension Contribution Fund that totaled \$965 million in the first six months. The decline in General Funds transfers in was partially offset by a \$433 million transfer from the Medicaid Provider Relief Fund to pay the first installment of the June 2004 short-term borrowing debt. Therefore, even with the economic driven and other state sources of revenue increasing by \$474 million, total General Funds base revenues through the first half of fiscal year 2005 are down \$705 million in comparison with fiscal year 2004.

On the expenditure side, Department of Public Aid grants have decreased by \$677

million from last year at this time. Medicaid expenditures have grown in the second quarter but not enough to offset the reduced spending in the first quarter. Teachers retirement grants, higher education and operations spending all posted declines through the first half of fiscal year 2005. The decreases in spending were partially offset by the increase in transfers out of the General Funds including the repayment of short-term borrowing.

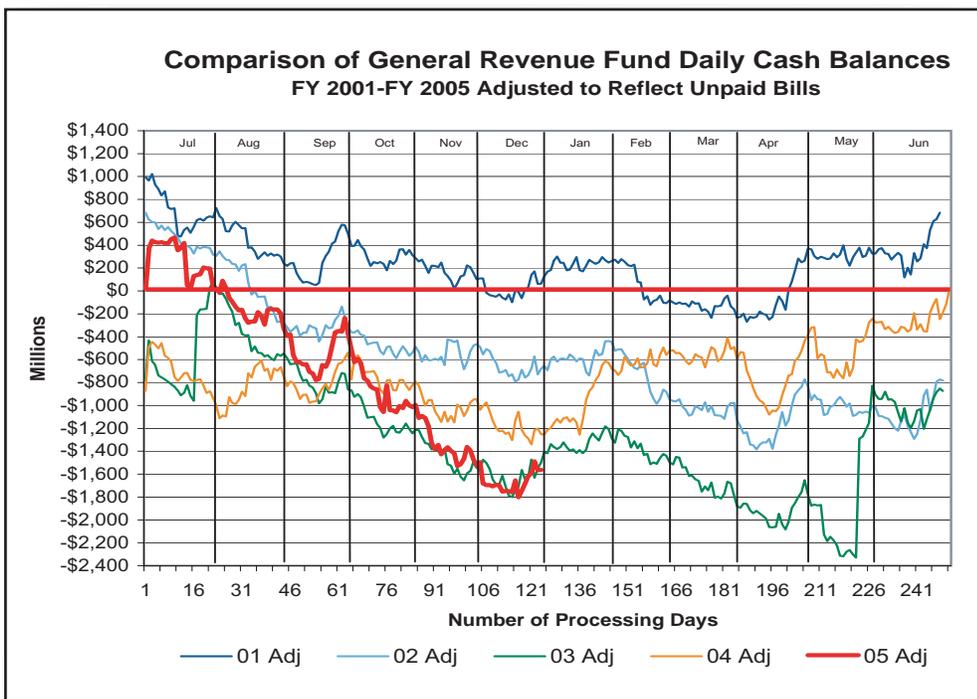
At the end of the second quarter of fiscal year 2005, the backlog of unpaid bills exceeded the end of December backlog for the past four years. As seen in the chart, the adjusted General Revenue Fund balance was a negative \$1.564 billion with a balance of \$25 million and a backlog totaling \$1.589

billion. Payables have increased by \$1.053 billion since the end of the first quarter. Payment delays have grown from 11 to 30 working days in the past three months.

### Base Revenues Decrease 5.4%

Total base revenues into the General Funds were \$12.391 billion, a decrease of \$705 million or 5.4% below six months revenues last year. Federal sources declined \$763 million or 26.6% while state sources increased \$58 million or 0.6%.

The decrease in federal revenues is due largely to factors associated with the federal bailout of last year. Under a federal initiative, the state received a \$422 million relief grant and Medicaid reimbursement rates



were increased from 50% to 53%. Compared to the first half of last year, Department of Public Aid Medicaid expenditures were down by \$677 million, resulting in less federal reimbursement opportunity.

State sources increased as cash receipts were up \$474 million or 5.7% and transfers in decreased \$416 million or 22.2%. Transfers are down due to the Pension Contribution Fund, a one-time source last year that provided \$965 million. This decline was partially offset by a \$433 million transfer from the Medicaid Provider Relief Fund to help pay for the June 2004 short-term borrowing. Other increases include the Lottery Fund, chargeback transfers and legislated (fund sweep) transfers.

Cash receipt growth was led by improvement in economic driven sources. Individual income taxes were up \$150 million or 4.7% and corporate income taxes increased \$7 million. Sales taxes grew 3.1% or \$100 million. While these increases are not by themselves significant, last year's figures included an additional \$287 million from the tax amnesty program. Excluding the tax amnesty factor, the growth would have been: individual income taxes up \$184 million, corporate income taxes up \$156 million, and sales taxes up \$195 million. Income tax growth was also impacted by a reduction in the amount allocated to the Refund Fund. Adjusting for the amnesty payments in fiscal year 2004 and changes to the Refund Fund contribution rate, individual income taxes were up 4.0%, sales taxes up 6.2%, and corporate income taxes were up 44.0%. Although these are the best growth rates seen since fiscal year 2000, they are more akin to the growth rates seen in the mid-1990s than in the late 1990s. Some of the growth is also attributable to "loophole closures" provided for in the budget.

Other sources of revenue to the General Funds in six months of fiscal year 2005 increased \$217 million or 14.2%. Cigarette taxes went up due to the one-time reallocation of \$50 million to the General Funds. Commercial distribution fees are up \$34 million. This and other fees did not generate receipts early in the fiscal year last year. Inheritance taxes increased due to the settlement of some large estates and decoupling from the federal tax last year.

## Base Expenditures Down 3.6%

Through December, base General Funds spending (which excludes transfers to repay short-term borrowing) totaled \$12.598 billion, \$465 million or 3.6% below the previous year. When repayment for short-term borrowing in fiscal year 2004 is factored in, fiscal year 2005 expenditures in the first six months were actually \$695 million or 5.2% below last year. General Funds appropriations are up \$202 million or 0.9% over last year. Through the first half of fiscal year 2005, 47.6% of General Funds appropriations have been expended compared to 57.1% last year.

The decline in both the amount and pace of spending is primarily attributable to the decrease in Medicaid grant spending by the Department of Public Aid. Medicaid grant spending of \$2.898 billion is down \$677 million or 18.9% from last year. The decline in Medicaid spending is in part due to higher spending in the first quarter of last fiscal year done in order to take advantage of the aforementioned higher federal Medicaid reimbursement rates. In addition, the short-term borrowing directed to Medicaid spending in June 2004 accelerated medical assistance spending from the beginning of fiscal year 2005 to the end of fiscal year 2004. These two factors contributed to a \$505 million decrease in Medicaid appropriations for the Department of Public Aid.

Other areas of spending which decreased from last year include higher education operations (down \$135 million or 14.3%), regular state agency operations (down \$48 million or 1.9%), teachers retirement grants (down \$51 million or 10.2%), and higher education grants (down \$15 million or 4.0%).

Areas of spending which increased include Human Services grants (up \$154 million or 11.1%), State Board of Education grants (up \$146 million or 5.8%), and transfers out (up \$1.302 billion or 148.8%). The large increase in transfers out is due primarily to debt service transfers which have increased by \$907 million from last year. Debt service transfers are utilized to pay both general obligation bond and short-term borrowing repayments.

## What Lies Ahead?

The economically driven state revenues continue to perform reasonably well with some year-over-year improvement in income and sales taxes. Although these improvements can be partially explained by tax law changes for the fiscal year 2005 budget, there is hope that Illinois will not see its economic revenues stagnate as in some recent years. Expenditures are likely to slow as one of the largest components of spending (Medicaid) exhausts its appropriation in the late spring. In addition, this year there will not be a repayment of short-term borrowing as in the latter parts of fiscal years 2003 and 2004.

The backlog of bills is expected to continue to increase over the next few months but will be reduced when large income tax payments arrive in the spring and spending slows. However, without a dramatic improvement in revenues, the state is likely to continue to hold a significant amount of General Funds bills at the end of this fiscal year.

This worsening of the state's fiscal position during the course of fiscal year 2005 will have a negative impact on the development of the fiscal year 2006 budget. Unpaid bills carried over to the next fiscal year will have first claim on next year's revenues and must be accommodated within the budget plan. Without a fiscal year 2005 supplemental appropriation (which in itself would create current fiscal year spending pressures), any Medicaid backlog will have to be paid for out of fiscal year 2006 appropriations. Economic forecasts call for continued albeit moderate growth. This limited revenue growth will occur in tandem with increasing and long building pressure to adequately address the state's pension obligations and rapid growth in Medicaid and health care costs among other factors. Even with one-time revenue measures and redirection of non-GRF funds into the General Funds (practices that have yet to clear all judicial tests) and stable revenue growth, the state's cash position has not improved. It seems apparent that even substantial growth in economy driven sources will not in and of itself allow policy makers to address continuing budgetary pressures.

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2003	2004		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 256	\$ 191	\$ (65)	\$ 317	\$ 182	\$ (135)	(42.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 614	\$ 602	\$ (12)	\$ 3,187	\$ 3,337	\$ 150	4.7 %
Corporate	146	161	15	412	419	7	1.7
Total, Income Taxes	760	763	3	3,599	3,756	157	4.4
Sales Taxes	598	589	(9)	3,233	3,333	100	3.1
Other Sources:							
Public Utility Taxes	119	117	(2)	521	511	(10)	(1.9)
Cigarette Taxes	33	33	0	200	250	50	25.0
Inheritance Tax (gross)	12	25	13	100	138	38	38.0
Liquor Gallonage Taxes	10	13	3	64	76	12	18.8
Insurance Tax and Fees	72	74	2	153	168	15	9.8
Corporation Franchise Tax and Fees	17	11	(6)	75	87	12	16.0
Investment Income	5	6	1	30	28	(2)	(6.7)
Cook County IGT	23	23	0	176	193	17	9.7
Riverboat Gambling Taxes	15	15	0	70	84	14	20.0
Other	40	26	(14)	134	205	71	53.0
Total, Other Sources	346	343	(3)	1,523	1,740	217	14.2
Total, Cash Receipts	\$ 1,704	\$ 1,695	\$ (9)	\$ 8,355	\$ 8,829	\$ 474	5.7 %
Transfers In:							
Lottery Fund	\$ 49	\$ 65	\$ 16	\$ 250	\$ 280	\$ 30	12.0 %
State Gaming Fund	60	60	0	325	318	(7)	(2.2)
Pension Contribution Fund	148	0	(148)	965	0	(965)	(100.0)
Other Funds	22	64	42	330	856	526	159.4
Total, Transfers In	\$ 279	\$ 189	\$ (90)	\$ 1,870	\$ 1,454	\$ (416)	(22.2) %
Total, State Sources	\$ 1,983	\$ 1,884	\$ (99)	\$ 10,225	\$ 10,283	\$ 58	0.6 %
Federal Sources:							
Cash Receipts	\$ 274	\$ 463	\$ 189	\$ 2,850	\$ 2,053	\$ (797)	(28.0) %
Transfers In	0	0	0	21	55	34	161.9
Total, Federal Sources	\$ 274	\$ 463	\$ 189	\$ 2,871	\$ 2,108	\$ (763)	(26.6) %
<b>Total, Base Revenues</b>	<b>\$ 2,257</b>	<b>\$ 2,347</b>	<b>\$ 90</b>	<b>\$ 13,096</b>	<b>\$ 12,391</b>	<b>\$ (705)</b>	<b>(5.4) %</b>
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Total, Revenues	\$ 2,257	\$ 2,347	\$ 90	\$ 13,322	\$ 12,667	\$ (655)	(4.9) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 598	\$ 668	\$ 70	\$ 2,501	\$ 2,647	\$ 146	5.8 %
Public Aid	482	515	33	3,575	2,898	(677)	(18.9)
Human Services	245	235	(10)	1,388	1,542	154	11.1
Teachers Retirement	82	81	(1)	498	447	(51)	(10.2)
Higher Education	20	25	5	377	362	(15)	(4.0)
All Other Grants	128	110	(18)	647	670	23	3.6
Total, Awards and Grants	1,555	1,634	79	8,986	8,566	(420)	(4.7)
Operations:							
Other Agencies	475	406	(69)	2,521	2,473	(48)	(1.9)
Higher Education	139	167	28	941	806	(135)	(14.3)
Total, Operations	614	573	(41)	3,462	3,279	(183)	(5.3)
Regular Transfers Out	136	182	46	875	2,177	1,302	148.8
All Other (Includes Prior Year Adjustments)	1	1	0	14	51	37	264.3
Vouchers Payable Adjustment	(284)	(103)	181	(274)	(1,475)	(1,201)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,022</b>	<b>\$ 2,287</b>	<b>\$ 265</b>	<b>\$ 13,063</b>	<b>\$ 12,598</b>	<b>\$ (465)</b>	<b>(3.6) %</b>
Transfers to Repay Short-Term Borrowing	145	0	(145)	230	0	(230)	(100.0)
Total, Expenditures	2,167	2,287	120	13,293	12,598	(695)	(5.2)
AVAILABLE CASH BALANCE, ENDING	\$ 346	\$ 251	\$ (95)	\$ 346	\$ 251	\$ (95)	(27.5) %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2003	2004		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 15	\$ 13	\$ (2)	\$ 1	\$ 24	\$ 23	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 557	\$ 558	\$ 1	\$ 2,939	\$ 3,093	\$ 154	5.2 %
Corporate	96	149	53	313	388	75	24.0
Total, Income Taxes	653	707	54	3,252	3,481	229	7.0
Sales Taxes	411	441	30	2,391	2,500	109	4.6
Other Sources:							
Public Utility Taxes	103	105	2	463	457	(6)	(1.3)
Cigarette Taxes	21	22	1	130	161	31	23.8
Inheritance Tax (gross)	12	25	13	100	138	38	38.0
Liquor Gallonage Taxes	10	13	3	64	76	12	18.8
Insurance Tax and Fees	72	74	2	153	168	15	9.8
Corporation Franchise Tax and Fees	17	11	(6)	75	87	12	16.0
Investment Income	5	6	1	30	28	(2)	(6.7)
Cook County IGT	23	23	0	176	193	17	9.7
Other	40	26	(14)	130	202	72	55.4
Total, Other Sources	303	305	2	1,321	1,510	189	14.3
Total, Cash Receipts	\$ 1,367	\$ 1,453	\$ 86	\$ 6,964	\$ 7,491	\$ 527	7.6 %
Transfers In:							
Regular Transfers In	\$ 22	\$ 63	\$ 41	\$ 330	\$ 813	\$ 483	146.4 %
Pension Contribution Fund	148	0	(148)	965	0	(965)	(100.0)
Total, Transfers In	\$ 170	\$ 63	\$ (107)	\$ 1,295	\$ 813	\$ (482)	(37.2) %
Total, State Sources	\$ 1,537	\$ 1,516	\$ (21)	\$ 8,259	\$ 8,304	\$ 45	0.5 %
Federal Sources:							
Cash Receipts	\$ 274	\$ 463	\$ 189	\$ 2,850	\$ 2,053	\$ (797)	(28.0) %
Transfers In	0	0	0	21	55	34	161.9
Total, Federal Sources	\$ 274	\$ 463	\$ 189	\$ 2,871	\$ 2,108	\$ (763)	(26.6) %
<b>Total, Base Revenues</b>	<b>\$ 1,811</b>	<b>\$ 1,979</b>	<b>\$ 168</b>	<b>\$ 11,130</b>	<b>\$ 10,412</b>	<b>\$ (718)</b>	<b>(6.5) %</b>
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Total, Revenues	\$ 1,811	\$ 1,979	\$ 168	\$ 11,356	\$ 10,688	\$ (668)	(5.9) %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 482	\$ 515	\$ 33	\$ 3,575	\$ 2,898	\$ (677)	(18.9) %
Elementary and Secondary Education	313	363	50	1,039	1,094	55	5.3
Human Services	245	235	(10)	1,388	1,542	154	11.1
Higher Education	20	25	5	280	362	82	29.3
Children and Family Services	59	64	5	312	326	14	4.5
All Other Grants	73	66	(7)	373	429	56	15.0
Total, Awards and Grants	1,192	1,268	76	6,967	6,651	(316)	(4.5)
Operations:							
Other Agencies	475	406	(69)	2,521	2,473	(48)	(1.9)
Higher Education	139	167	28	941	764	(177)	(18.8)
Total, Operations	614	573	(41)	3,462	3,237	(225)	(6.5)
Regular Transfers Out	136	228	92	936	2,223	1,287	137.5
All Other (Includes Prior Adjustments)	1	1	0	14	51	37	264.3
Vouchers Payable Adjustment	(284)	(103)	181	(274)	(1,475)	(1,201)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,659</b>	<b>\$ 1,967</b>	<b>\$ 308</b>	<b>\$ 11,105</b>	<b>\$ 10,687</b>	<b>\$ (418)</b>	<b>(3.8) %</b>
Transfers to Repay Short-Term Borrowing	145	0	(145)	230	0	(230)	(100.0)
Total, Expenditures	1,804	1,967	163	11,335	10,687	(648)	(5.7)
AVAILABLE CASH BALANCE, ENDING	\$ 22	\$ 25	\$ 3	\$ 22	\$ 25	\$ 3	13.6 %