

# Comptroller's Quarterly

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## STATE PAYS DOWN FISCAL YEAR 2010 BILLS

Illinois' cash flow position has become clearer as several one-time revenue enhancements allowed the state to finally address bills left over from fiscal year 2010. In the second quarter, the General Funds received \$1.25 billion from the sale of tobacco securitization bonds, \$392 million from the tax amnesty program and utilized \$354 million in inter-fund borrowing. These revenues helped to eliminate fiscal year 2010 obligations as the lapse period was extended to December 31st for fiscal year 2010. While the almost \$2 billion in revenues helped reduce the overall backlog of unpaid bills, the state's overall fiscal condition has not improved.

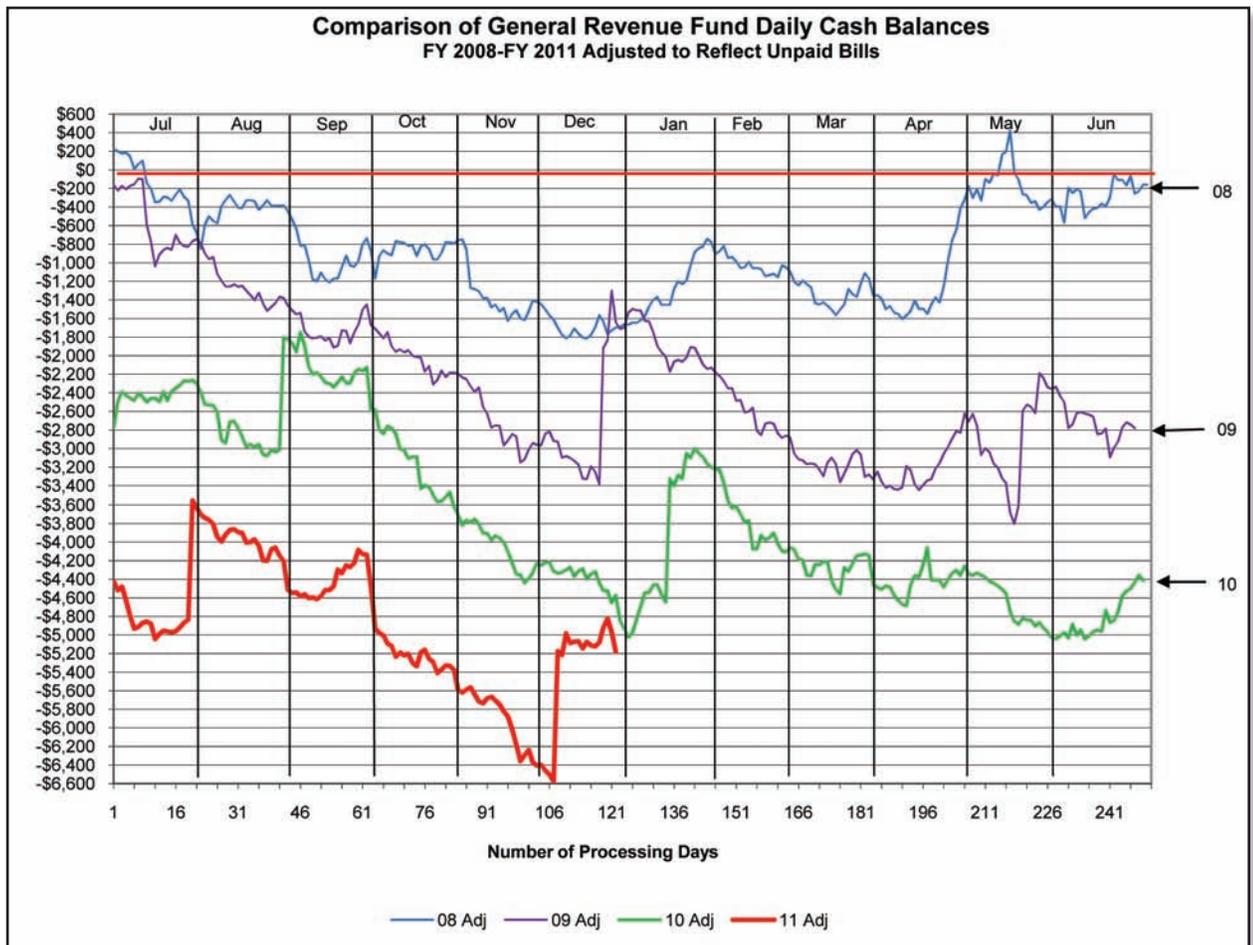
With fiscal year 2010 lapse period obligations of \$6.5 billion (which includes the repayment of the Budget Stabilization Fund), prior year liabilities addressed in the past 6 months were double the amount generated by one-time revenue enhancements and the July 2010 short-term borrowing of \$1.3 billion. Repayment of that borrowing before the end of June of this year means that over \$4 billion of fiscal year 2011 revenues will be used to pay fiscal year 2010 liabilities.

At the halfway point of fiscal year 2011,

the backlog of unpaid General Funds bills totals \$6.382 billion including \$4.577 billion in unpaid vouchers and transfers with the oldest bill dating to mid-July, and \$1.805 billion in unpaid pension obligations. A proposed \$4 billion in pension bond authorization to cover the state's General Funds fiscal year 2011 contribution has, as of this writing, not been enacted, compelling the five state funded retirement systems to continue to submit vouchers for payment under the continuing appropriation provision of current statute. As seen in the chart, the adjusted General Revenue Fund (GRF) balance on December

31, 2010 was a negative \$5.182 billion with a GRF cash balance of \$56 million and payables of \$5.238 billion. The adjusted GRF balance has deteriorated slightly from last year when the end of December balance was a negative \$5.029 billion.

Base spending increased 14.0% with most of the growth occurring in transfers out of the General Funds. Transfers out were \$1.523 billion higher than last year after six months as the delayed fiscal year 2010 transfers (\$940 million) were finally paid; additionally, debt service transfers are up due to the beginning of repayment of the 2010 pension bond issue.



Base revenues are up 15.1% mainly due to the one-time revenue enhancements. Of the \$1.926 billion increase in base revenues, \$1.25 billion was from the tobacco settlement bonds and \$392 million was from tax amnesty revenues.

## Base Revenues

General Funds base revenues increased 15.1% primarily due to tobacco bond proceeds and the state's tax amnesty program. Income tax revenue was one area of growth in total revenues. Individual income tax receipts through six months increased \$129 million or 3.4% while corporate income tax receipts grew \$235 million or 45.8%. A major portion of this growth was from the tax amnesty program which generated \$36 million in individual income tax receipts and \$198 million in corporate income tax revenue. A change in the percent allocated to the Income Tax Refund Fund had a major impact on the increase in individual income tax receipts. Total base individual income taxes (including Refund Fund amounts but excluding the tax amnesty collections) have shown growth of only 1.3% over last year.

The economy showed improvement as sales tax revenues are up \$268 million or 8.4%, but a majority was due to tax amnesty which provided \$158 million of this increase. Excluding tax amnesty receipts, sales tax revenues have increased only 3.5%.

All other receipts are up \$9 million or 0.6%. Public utility tax receipts increased \$23 million while insurance taxes and fees decreased \$13 million.

Transfers in are up \$1.180 billion. This is due to the transfer of \$1.25 billion of tobacco bond proceeds from the Tobacco Settlement Recovery Fund in December 2010. Transfers from the Capital Projects Fund are up year to date as those transfers did not begin until December last year. While Lottery Fund transfers increased slightly, riverboat gambling transfers decreased \$54 million, or 22.3%.

Federal revenues are up \$105 million or 3.7%. This is due to federal stimulus (ARRA) monies and an increase in reimbursable Medicaid spending. The accelerated spending

by the Department of Healthcare and Family Services (DHFS) was due in part to the planned reduction in federal reimbursement rates for Medicaid disbursements effective January 1, 2011 creating an incentive for the state to take advantage of the higher federal return available until that date.

## Base Expenditures

Through the end of December 2010, base General Funds spending has increased 14.0%. For the month of December, base spending was up \$1.628 billion while November spending compared to last year was up \$439 million and October was down \$11 million. The growth in December was due to the receipt of tobacco bond proceeds enabling the state to pay prior year liabilities.

Through six months of fiscal year 2011 base expenditures have increased by \$1.987 billion. DHFS had the largest increase in vouchers presented for payment among the major agencies of \$568 million or 14.7% due to the Medicaid disbursements referenced above. Other increases in agency spending include the Teachers Retirement System (\$136 million) and Higher Education agencies (up \$117 million). The higher certified level of fiscal year 2011 funding requirements by the state's retirement systems led to the increase in Higher Education and Teachers Retirement.

Transfers out through the end of December increased by \$1.523 billion or 139.6%. Most of this growth was due to paying transfers that were delayed from fiscal year 2010 and increases in debt service transfers due to pension bonds issued last year.

## What Lies Ahead

Pending legislation on the issues of revenue enhancements, budgetary restructuring, and pension bonds will have a major impact on the financial position of the state. Of the \$6.382 billion in unpaid General Funds bills at the end of December, \$1.805 billion are pension obligations. If bonds are issued to cover the state's obligation to the retirement systems this year, these obligations will be paid without the use of general revenues. If pension bonds are not issued, requests for payment will continue from the state's retirement sys-

tems, further increasing the state's bill backlog. As the extent of any revenue or budgetary changes is unknown at this time, it is not possible to quantify their potential impact. Any use of bonds to deal with the state's fiscal condition will continue to impact the state's cash management practices in the future as the state must adjust to those higher debt service obligations.

During the last quarter of fiscal year 2011, the state must pay back the \$1.3 billion from the July 2010 short-term borrowing. Factoring this debt in, the total of unpaid liabilities was \$7.682 billion at the end of the second quarter. To pay down just these liabilities will require approximately 50% of the revenues expected to be received in the latter half of the fiscal year, leaving few resources to address the remaining six months of obligations.

The backlog of General Funds bills in the Comptroller's Office is higher than it was at the same point last year, due in part to a higher level of unpaid pension contributions awaiting payment. In addition to the backlog awaiting payment in the Comptroller's Office, the state also holds an estimated \$1.5 billion in Medicaid and group insurance claims not yet transmitted to the IOC. Absent any significant budgetary developments such as the initiatives currently under discussion in the General Assembly, the outlook for the state's fiscal condition does not look to show any improvement and in fact is expected to weaken further. Last year, the state received \$600 million in federal stimulus for education in the spring which will not be available this year. At the same time, the additional reimbursement for Medicaid spending as authorized by the federal stimulus legislation will be reduced, putting additional pressure on the General Revenue Fund. Although the state has a lower amount of short-term borrowing to repay this spring (\$1.3 billion vs. \$2.25 billion), that reduction is partially offset by the increase in debt service obligations associated with last year's pension bonds. Depending on the economic recovery and the aforementioned pending budgetary developments, the backlog of unpaid bills on June 30th could be between \$7 billion to \$10 billion, requiring another extension of the fiscal year 2011 lapse period to at least the end of December. ■

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2009	2010		FY 2010	FY 2011	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 151	\$ 180	\$ 29	\$ 280	\$ 130	\$ (150)	(53.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 755	\$ 691	\$ (64)	\$ 3,804	\$ 3,933	\$ 129	3.4 %
Corporate	188	211	23	513	748	235	45.8
Total, Income Taxes	943	902	(41)	4,317	4,681	364	8.4
Sales Taxes	574	629	55	3,185	3,453	268	8.4
Other Sources:							
Public Utility Taxes	121	110	(11)	517	540	23	4.4
Cigarette Taxes	29	30	1	175	177	2	1.1
Inheritance Tax (gross)	29	5	(24)	116	113	(3)	(2.6)
Liquor Gallonage Taxes	8	14	6	76	82	6	7.9
Insurance Tax and Fees	65	58	(7)	157	144	(13)	(8.3)
Corporation Franchise							
Tax and Fees	19	22	3	107	112	5	4.7
Investment Income	0	7	7	15	17	2	13.3
Cook County IGT	0	0	0	56	56	0	0.0
Other	35	32	(3)	198	185	(13)	(6.6)
Total, Other Sources	306	278	(28)	1,417	1,426	9	0.6
Total, Cash Receipts	\$ 1,823	\$ 1,809	\$ (14)	\$ 8,919	\$ 9,560	\$ 641	7.2 %
Transfers In:							
Lottery Fund	\$ 60	\$ 61	\$ 1	\$ 294	\$ 297	\$ 3	1.0 %
State Gaming Fund	42	25	(17)	242	188	(54)	(22.3)
Other Funds	99	1,310	1,211	398	1,629	1,231	309.3
Total, Transfers In	\$ 201	\$ 1,396	\$ 1,195	\$ 934	\$ 2,114	\$ 1,180	126.3 %
Total, State Sources	\$ 2,024	\$ 3,205	\$ 1,181	\$ 9,853	\$ 11,674	\$ 1,821	18.5 %
Federal Sources	\$ 393	\$ 712	\$ 319	\$ 2,860	\$ 2,965	\$ 105	3.7 %
<b>Total, Base Revenues</b>	<b>\$ 2,417</b>	<b>\$ 3,917</b>	<b>\$ 1,500</b>	<b>\$ 12,713</b>	<b>\$ 14,639</b>	<b>\$ 1,926</b>	<b>15.1 %</b>
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	16	16	0	354	354	N/A
Cash Flow Transfer	70	0	(70)	240	0	(240)	(100.0)
Transfer from Budget Stabilization Fund	0	235	235	276	235	(41)	(14.9)
Total, Revenues	\$ 2,487	\$ 4,168	\$ 1,681	\$ 14,479	\$ 16,528	\$ 2,049	14.2 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 698	\$ 691	\$ (7)	\$ 3,860	\$ 4,428	\$ 568	14.7 %
State Board of Education	803	822	19	3,400	3,255	(145)	(4.3)
Human Services	335	382	47	2,177	2,197	20	0.9
Teachers Retirement	184	187	3	1,105	1,241	136	12.3
Higher Education	247	256	9	1,568	1,685	117	7.5
Corrections	99	103	4	613	618	5	0.8
Children and Family Services	81	75	(6)	491	492	1	0.2
Aging	63	60	(3)	318	321	3	0.9
State Police	29	22	(7)	144	131	(13)	(9.0)
All Other	222	204	(18)	1,253	1,218	(35)	(2.8)
Total	\$ 2,761	\$ 2,802	\$ 41	\$ 14,929	\$ 15,586	\$ 657	4.4 %
Regular Transfers Out	165	675	510	1,091	2,614	1,523	139.6
Prior Year Adjustments	(4)	(1)	3	(11)	(5)	6	(54.5)
Vouchers Payable Adjustment	(664)	410	1,074	(1,800)	(1,999)	(199)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,258</b>	<b>\$ 3,886</b>	<b>\$ 1,628</b>	<b>\$ 14,209</b>	<b>\$ 16,196</b>	<b>\$ 1,987</b>	<b>14.0 %</b>
Cash Flow Transfer	230	0	(230)	400	0	(400)	(100.0)
Transfer to Budget Stabilization Fund	0	276	276	0	276	276	N/A
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,488	4,162	1,674	14,609	16,472	1,863	12.8
AVAILABLE CASH BALANCE, ENDING	\$ 150	\$ 186	\$ 36	\$ 150	\$ 186	\$ 36	24.0 %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	December		Change	Six Months		Change	
	2009	2010		FY 2010	FY 2011	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 44	\$ 25	\$ (19)	\$ 4	\$ 20	\$ 16	400.0 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 700	\$ 639	\$ (61)	\$ 3,527	\$ 3,630	\$ 103	2.9 %
Corporate	174	186	12	475	602	127	26.7
Total, Income Taxes	874	825	(49)	4,002	4,232	230	5.7
Sales Taxes	429	459	30	2,380	2,528	148	6.2
Other Sources:							
Public Utility Taxes	110	99	(11)	464	485	21	4.5
Cigarette Taxes	15	21	6	89	119	30	33.7
Inheritance Tax (gross)	29	5	(24)	116	113	(3)	(2.6)
Liquor Gallonage Taxes	8	14	6	76	82	6	7.9
Insurance Tax and Fees	65	58	(7)	157	144	(13)	(8.3)
Corporation Franchise Tax and Fees	19	22	3	107	112	5	4.7
Investment Income	0	7	7	15	16	1	6.7
Cook County IGT	0	0	0	56	56	0	0.0
Other	35	32	(3)	196	183	(13)	(6.6)
Total, Other Sources	281	258	(23)	1,276	1,310	34	2.7
Total, Cash Receipts	\$ 1,584	\$ 1,542	\$ (42)	\$ 7,658	\$ 8,070	\$ 412	5.4 %
Transfers In	98	1,311	1,213	396	1,627	1,231	310.9
Total, State Sources	\$ 1,682	\$ 2,853	\$ 1,171	\$ 8,054	\$ 9,697	\$ 1,643	20.4 %
Federal Sources	\$ 393	\$ 712	\$ 319	\$ 2,860	\$ 2,965	\$ 105	3.7 %
<b>Total, Base Revenues</b>	<b>\$ 2,075</b>	<b>\$ 3,565</b>	<b>\$ 1,490</b>	<b>\$ 10,914</b>	<b>\$ 12,662</b>	<b>\$ 1,748</b>	<b>16.0 %</b>
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	16	16	0	354	354	N/A
Cash Flow Transfer	70	0	(70)	240	0	(240)	(100.0)
Transfer from Budget Stabilization Fund	0	235	235	276	235	(41)	(14.9)
Total, Revenues	\$ 2,145	\$ 3,816	\$ 1,671	\$ 12,680	\$ 14,551	\$ 1,871	14.8 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 698	\$ 691	(7)	\$ 3,860	\$ 4,428	\$ 568	14.7
State Board of Education	385	407	22	1,584	1,177	(407)	(25.7)
Human Services	335	382	47	2,177	2,197	20	0.9
Higher Education	247	239	(8)	1,466	1,584	118	8.0
Corrections	99	103	4	613	618	5	0.8
Children and Family Services	81	75	(6)	491	492	1	0.2
Aging	63	60	(3)	318	321	3	0.9
State Police	29	22	(7)	144	130	(14)	(9.7)
All Other	222	204	(18)	1,256	1,228	(28)	(2.2)
Total	\$ 2,159	\$ 2,183	\$ 24	\$ 11,909	\$ 12,175	\$ 266	2.2 %
Regular Transfers Out	404	733	329	1,910	2,985	1,075	56.3
Prior Year Adjustments	(3)	(1)	2	(10)	(6)	4	(40.0)
Vouchers Payable Adjustment	(609)	594	1,203	(1,533)	(915)	618	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,951</b>	<b>\$ 3,509</b>	<b>\$ 1,558</b>	<b>\$ 12,276</b>	<b>\$ 14,239</b>	<b>\$ 1,963</b>	<b>16.0 %</b>
Transfer to Budget Stabilization Fund	0	276	276	0	276	276	N/A
Cash Flow Transfer	230	0	(230)	400	0	(400)	(100.0)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,181	3,785	1,604	12,676	14,515	1,839	14.5
AVAILABLE CASH BALANCE, ENDING	\$ 8	\$ 56	\$ 48	\$ 8	\$ 56	\$ 48	600.0 %