

Comptroller's Quarterly

DANIEL W. HYNES, COMPTROLLER

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FINANCIAL POSITION DETERIORATES DESPITE \$2.25 BILLION IN BORROWING

The state's cash flow position continued to deteriorate rapidly as the recession deepened even though the state borrowed an additional \$1.25 billion in August 2009 after borrowing \$1.0 billion last May. At the end of September 2009, the backlog of unpaid bills in the Comptroller's Office stood at \$2.913 billion while last year at this time, payables totaled \$1.823 billion. As important, the delay in paying bills was 61 receipting days at the end of September compared to 42 days at this time last year. Both the amounts payable and the days delayed are record highs at this point of the fiscal year despite the fact the state has incurred the largest short term borrowing debt in its history. Two factors have had a major impact on the cash flow position – the state's economy driven revenues weakened significantly and lapse period spending was at record levels.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on September 30, 2009 to be a negative \$2.801 billion. This low balance was in spite of a short-term borrowing of \$1.25 billion in August that was used to pay down fiscal year 2009 lapse period bills. In the first quarter, General Funds expenditures on fiscal year 2009 obligations, including vouchers and transfers, exceeded \$3.8 billion, a lapse period record.

Base General Funds spending for the year-to-date was up 14.7% due to the payment of carried over June 30th vouchers payable afforded by the August short-term borrowing. Regular spending fell due primarily to a decline in Medicaid vouchers presented when compared to July 2008.

While base revenues decreased 5.0% in the first quarter, it is the decline in economy driven revenue sources that greatly impacted the Office's ability to pay the bills. Corporate income tax receipts were down 27.8%, sales tax receipts have decreased \$244 million or 13.2%, and individual income tax receipts fell \$251 million or 11.7%. These declines were partially offset by extra federal revenues from the American Recovery and Reinvestment Act of 2009 (ARRA) stimulus program.

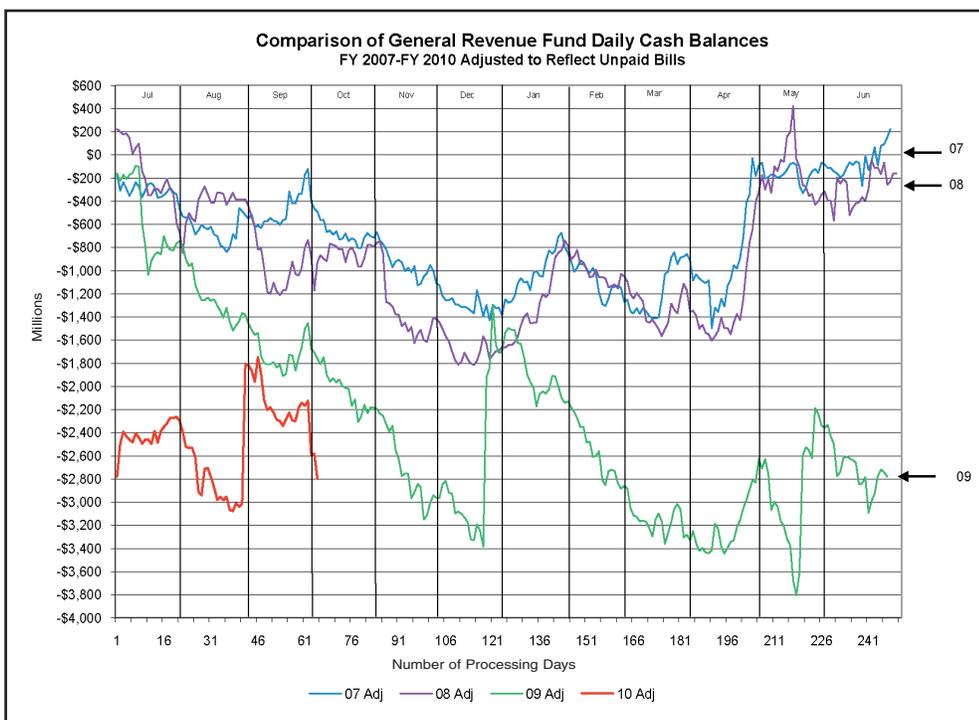
Base Revenues

At the end of September, fiscal year 2009 base revenues decreased \$340 million or

5.0% for a total of \$6.444 billion. State sources of revenue were down \$629 million or 11.5% while federal sources increased \$289 million (22.2%) which included \$367 million from the federal stimulus program. At the end of the quarter, income taxes had decreased \$344 million with individual income taxes down \$251 million (11.7%) while corporate income taxes declined \$93 million (27.8%).

With the recession impacting economy driven revenues, sales tax receipts decreased \$244 million or 13.2%.

Cash receipts from other sources decreased \$45 million or 6.0% due primarily to the expected declines in investment income



(down \$13 million or 54.2%), inheritance tax receipts (down \$15 million or 21.1%), Cook County IGT (down \$13 million), and public utility taxes (down \$26 million or 9.4%). The only state sources of revenue to increase for the year were insurance taxes (up \$8 million) and liquor taxes (up \$13 million) due to buying prior to the liquor tax rate increase.

Transfers in for the quarter increased by \$4 million. State Gaming Fund transfers were down \$35 million while Lottery Fund transfers declined \$5 million. All other transfers increased \$44 million primarily from a quarterly fund sweep of \$87 million in July 2009.

Federal sources of revenue increased \$289 million or 22.2%, due to the federal stimulus plan which generated \$367 million in the first quarter of fiscal year 2010.

Base Expenditures

In past quarterly reports, expenditure analysis has been based on major categories of spending such as awards and grants and operations. Major state agencies or groups of agencies were compared by categories of spending. However, due to the manner in which Illinois' fiscal year 2010 General Funds budget was appropriated, that level of detail is not available, and this analysis will focus on spending by state agencies.

Through September, base General Funds spending increased \$1.030 billion or 14.7%. For the month of September base spending was down \$129 million or 5.1%. August spending compared to last year was up \$1.517 billion and July was down \$359 million.

Short-term borrowing of \$1.250 billion along with substantial federal reimbursements sparked the sharp increase in August as borrowing was utilized to enable Illinois to address fiscal year 2009 bills during the lapse period. With over \$2.7 billion in fiscal year 2009 obligations carried into lapse period on top of another \$1.168 billion in additional fiscal year 2009 vouchers presented in July and August, over \$3.8 billion of fiscal year 2010 revenues were utilized for fiscal year 2009 commitments.

Through three months of fiscal year 2010, Healthcare and Family Services had the largest drop in vouchers presented for pay-

ment among the major agencies of \$641 million or 23.1%. Higher education decreased \$140 million or 23.4%, State Board of Education was down \$99 million or 6.3%, Corrections was down \$23 million or 6.7% and Human Services (down \$3 million) as well as Children and Family Services (down \$2 million) were also down.

Increased spending occurred at Department on Aging (up \$39 million or 31.7%) and State Police (up \$29 million or 72.5%) as ISP appropriations were increased from GRF to replace lost Road Fund appropriations. Increases are shown for the Teachers Retirement System (up \$153 million or 38.2%) and all other (up \$121 million or 24.7%) as TRS and the State Employees Retirement System have continued to submit vouchers for payment in the absence of retirement funding from planned pension bonds. Transfers out for the first three months of fiscal year 2010 declined by \$47 million or 7.1%.

What Lies Ahead

Illinois' poor financial position at the end of the first quarter of fiscal year 2010, with a General Revenue Fund bill backlog of \$2.9 billion dollars, will create unprecedented pressures for the remainder of the fiscal year and likely well into fiscal year 2011. Several budget relief items included in the fiscal year 2010 budget plan have not yet materialized, worsening Illinois' cash crunch.

It was originally anticipated that federal stimulus monies for education would begin to alleviate cash management needs in the first quarter, with mandated payments to school districts as the primary beneficiary, but the major portion of these funds are not expected until November at the earliest. It was also hoped that proceeds from the pension bonding plan approved by the General Assembly and the Governor would provide additional relief by the second quarter of the year but no pension bond sale date has been finalized. Additionally, the fiscal year 2010 budget plan authorized the restructuring of the state's debt to lower payments on general obligation and Build Illinois bonds for fiscal year 2010; as action has not yet taken place, anticipated monthly savings have not been realized.

In order for the state to continue to qualify for ARRA federal stimulus healthcare funds, a significant percentage of incoming revenues will continue to need to be devoted to paying for specific Medicaid programs while most remaining healthcare and social service programs face growing payment delays. The state needs to begin to confront a state employee and retiree group insurance program underfunded by over \$600 million and already creating large payment backlogs that are not included in the \$2.9 billion in bills now in the Comptroller's office. (It should be noted that the Department of Healthcare and Family Services is also holding an estimated \$500 million in additional Medicaid bills.) The mandated payback of the \$2.25 billion in short-term loans will require the dedication of significant revenues throughout the latter half of the fiscal year.

These conditions set the stage for record and prolonged payment delays for most categories of state programs and operations. Some of these providers such as pharmacies, independent living centers, and home health caregivers for seniors, have already waited months for payments for their services. There is a growing concern that the state's health care and social service infrastructure will suffer irreparable damage if these circumstances persist and if payment cycles continue to lengthen as now seems certain. Categorical grant payments to school districts and related educational payments, along with state university and community college subsidies, will also be greatly impacted. Payments to local governments, dependent on transfers from the General Revenue Fund, will continue to face increasing delays, as will all initiatives or programs with any GRF revenue source regardless of the state fund from which the final payment is actually made. Prime examples include public transit systems and the aforementioned group health insurance programs.

As those public sectors dependent on state funding continue to seek additional resources in a difficult economic environment, it will be incumbent upon the Governor and General Assembly to not only determine what is affordable, but to recognize the importance of timely payment cycles and to establish such cycles as part of maintaining the financial stability of the Illinois public sector. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2008	2009		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 164	\$ 198	\$ 34	\$ 141	\$ 280	\$ 139	98.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 899	\$ 737	\$ (162)	\$ 2,150	\$ 1,899	\$ (251)	(11.7) %
Corporate	261	184	(77)	334	241	(93)	(27.8)
Total, Income Taxes	1,160	921	(239)	2,484	2,140	(344)	(13.8)
Sales Taxes	621	529	(92)	1,851	1,607	(244)	(13.2)
Other Sources:							
Public Utility Taxes	82	84	2	277	251	(26)	(9.4)
Cigarette Taxes	29	29	0	88	88	0	0.0
Inheritance Tax (gross)	13	17	4	71	56	(15)	(21.1)
Liquor Gallonage Taxes	13	25	12	42	55	13	31.0
Insurance Tax and Fees	55	62	7	78	86	8	10.3
Corporation Franchise Tax and Fees	22	21	(1)	49	49	0	0.0
Investment Income	8	4	(4)	24	11	(13)	(54.2)
Cook County IGT	0	0	0	13	0	(13)	(100.0)
Other	28	21	(7)	105	106	1	1.0
Total, Other Sources	250	263	13	747	702	(45)	(6.0)
Total, Cash Receipts	\$ 2,031	\$ 1,713	\$ (318)	\$ 5,082	\$ 4,449	\$ (633)	(12.5) %
Transfers In:							
Lottery Fund	\$ 52	\$ 51	\$ (1)	\$ 133	\$ 128	\$ (5)	(3.8) %
State Gaming Fund	55	25	(30)	135	100	(35)	(25.9)
Other Funds	75	21	(54)	130	174	44	33.8
Total, Transfers In	\$ 182	\$ 97	\$ (85)	\$ 398	\$ 402	\$ 4	1.0 %
Total, State Sources	\$ 2,213	\$ 1,810	\$ (403)	\$ 5,480	\$ 4,851	\$ (629)	(11.5) %
Federal Sources	\$ 359	\$ 618	\$ 259	\$ 1,304	\$ 1,593	\$ 289	22.2 %
Total, Base Revenues	\$ 2,572	\$ 2,428	\$ (144)	\$ 6,784	\$ 6,444	\$ (340)	(5.0) %
Short Term Borrowing	0	0	0	0	1,250	1,250	0.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,572	\$ 2,428	\$ (144)	\$ 7,060	\$ 7,970	\$ 910	12.9 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 557	\$ 856	\$ 299	\$ 2,780	\$ 2,139	\$ (641)	(23.1) %
State Board of Education	864	956	92	1,578	1,479	(99)	(6.3)
Human Services	402	427	25	1,200	1,197	(3)	(0.3)
Teachers Retirement	134	184	50	401	554	153	38.2
Higher Education	262	183	(79)	599	459	(140)	(23.4)
Corrections	116	116	0	344	321	(23)	(6.7)
Children and Family Services	111	118	7	299	297	(2)	(0.7)
Aging	40	48	8	123	162	39	31.7
State Police	13	19	6	40	69	29	72.5
All Other	155	317	162	490	611	121	24.7
Total	\$ 2,654	\$ 3,224	\$ 570	\$ 7,854	\$ 7,288	\$ (566)	(7.2) %
Regular Transfers Out	276	335	59	662	615	(47)	(7.1)
Prior Year Adjustments	(2)	(3)	(1)	(3)	(2)	1	(33.3)
Vouchers Payable Adjustment	(380)	(1,137)	(757)	(1,500)	142	1,642	N/A
Total, Base Expenditures	\$ 2,548	\$ 2,419	\$ (129)	\$ 7,013	\$ 8,043	\$ 1,030	14.7 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,548	2,419	(129)	7,013	8,043	1,030	14.7
AVAILABLE CASH BALANCE, ENDING	\$ 188	\$ 207	\$ 19	\$ 188	\$ 207	\$ 19	10.1 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2008	2009		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 7	\$ 9	\$ 2	\$ 48	\$ 4	\$ (44)	(91.7) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 833	\$ 683	\$ (150)	\$ 1,993	\$ 1,760	\$ (233)	(11.7) %
Corporate	242	171	(71)	310	223	(87)	(28.1)
Total, Income Taxes	1,075	854	(221)	2,303	1,983	(320)	(13.9)
Sales Taxes	466	395	(71)	1,387	1,201	(186)	(13.4)
Other Sources:							
Public Utility Taxes	74	76	2	249	224	(25)	(10.0)
Cigarette Taxes	15	15	0	45	45	0	0.0
Inheritance Tax (gross)	13	17	4	71	56	(15)	(21.1)
Liquor Gallonage Taxes	13	25	12	42	55	13	31.0
Insurance Tax and Fees	55	62	7	78	86	8	10.3
Corporation Franchise Tax and Fees	22	21	(1)	49	49	0	0.0
Investment Income	8	4	(4)	24	11	(13)	(54.2)
Cook County IGT	0	0	0	13	0	(13)	(100.0)
Other	28	21	(7)	103	106	3	2.9
Total, Other Sources	228	241	13	674	632	(42)	(6.2)
Total, Cash Receipts	\$ 1,769	\$ 1,490	\$ (279)	\$ 4,364	\$ 3,816	\$ (548)	(12.6) %
Transfers In	74	21	(53)	129	174		
Total, State Sources	\$ 1,843	\$ 1,511	\$ (332)	\$ 4,493	\$ 3,990	\$ (503)	(11.2) %
Federal Sources	\$ 359	\$ 618	\$ 259	\$ 1,304	\$ 1,593	\$ 289	22.2 %
Total, Base Revenues	\$ 2,202	\$ 2,129	\$ (73)	\$ 5,797	\$ 5,583	\$ (214)	(3.7) %
Short Term Borrowing	0	0	0	0	1,250	1,250	0.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,202	\$ 2,129	\$ (73)	\$ 6,073	\$ 7,109	\$ 1,036	17.1 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 557	\$ 856	299	2,780	2,139	(641)	(23.1)
State Board of Education	410	640	230	680	934	254	37.4
Human Services	402	427	25	1,200	1,197	(3)	(0.3)
Higher Education	189	183	(6)	515	410	(105)	(20.4)
Corrections	116	116	0	344	321	(23)	(6.7)
Children and Family Services	111	118	7	299	297	(2)	(0.7)
Aging	40	48	8	123	162	39	31.7
State Police	13	19	6	40	69	29	72.5
All Other	156	317	161	493	612	119	24.1
Total	\$ 1,994	\$ 2,724	\$ 730	\$ 6,474	\$ 6,141	\$ (333)	(5.1) %
Regular Transfers Out	492	441	(51)	1,047	721	(326)	(31.1)
Prior Year Adjustments	(1)	(2)	(1)	(4)	(3)	1	(25.0)
Vouchers Payable Adjustment	(338)	(1,137)	(799)	(1,458)	142	1,600	N/A
Total, Base Expenditures	\$ 2,147	\$ 2,026	\$ (121)	\$ 6,059	\$ 7,001	\$ 942	15.5 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,147	2,026	(121)	6,059	7,001	942	15.5
AVAILABLE CASH BALANCE, ENDING	\$ 62	\$ 112	\$ 50	\$ 62	\$ 112	\$ 50	80.6 %