

Comptroller's Quarterly

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RECESSION IMPACTS REVENUES – FISCAL POSITION DETERIORATES

Through the first nine months of fiscal year 2009, the state's cash flow position has continued to deteriorate rapidly as the recession deepens. At the end of March the backlog of unpaid bills in the Comptroller's Office stood at \$3.401 billion, while last year payables totaled \$1.416 billion. Just as important, the delay in paying bills was 68 receipting days at the end of March compared to 27 days at this time last year. Both the amount payable and the days delayed represent historical records. This is in spite of receiving \$1.4 billion from short-term borrowing in December that the state must repay by the end of fiscal year 2009.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on March 31, 2009, to be a negative \$3.282 billion. This is the lowest end of March balance on the chart and throughout the first nine months the adjusted balances have been consistently lower than the previous years. A few factors continue to have a major impact on the cash flow position – the state's economy-driven revenues have weakened significantly, including gambling revenues, and spending demands have increased.

Base spending through March was down 1.9% due to the backlog of vouchers at the Comptroller's Office. Regular spending growth of processed vouchers was due to a 36.8% increase in teacher retirement grants, and growth of 5.7% in operations spending which includes increased retirement contributions.

While base revenues have decreased 6.4% through three quarters of fiscal year 2009, it

is the decline in economy-driven revenue sources that have greatly impacted the state's ability to pay its bills. Corporate income tax receipts were down 12.2%, sales tax receipts have decreased \$241 million or 4.5%, and individual income tax receipts have declined \$315 million since the first of January.

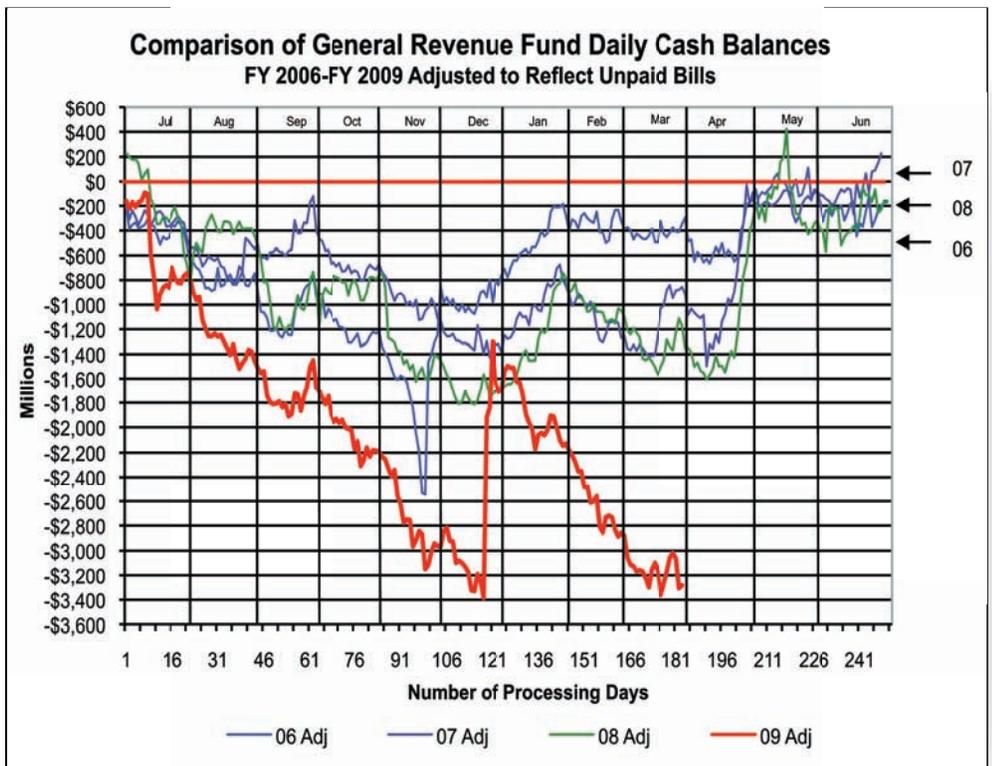
Base Revenues

At the end of the third quarter of fiscal year 2009, base revenues had decreased \$1.321 billion or 6.4% for a total of \$19.436 billion. State sources of revenue were down \$1.128 billion or 6.5% while federal sources decreased \$193 million or 5.6%. The growth

in income taxes that began years ago has ended as individual income taxes declined in the recent quarter. At the end of March, income taxes had decreased \$423 million with individual income taxes down \$286 million (4.1%) while corporate income taxes declined \$137 million (12.2%).

With the recession impacting economy-driven revenues, sales tax receipts continued their dramatic decline through the third quarter. Sales tax receipts through nine months decreased \$241 million or 4.5%.

Cash receipts from other sources decreased \$195 million or 7.6% due primarily to the expected declines in investment income



(down \$97 million or 63.0%), inheritance tax receipts (down \$72 million or 24.7%), Cook County IGT (down \$34 million), and corporate franchise tax (down \$16 million). Two sources of revenue increased, with public utility taxes up \$25 million primarily due to timing and insurance taxes up \$18 million.

For the first three quarters of fiscal year 2009, transfers in decreased by \$269 million. State Gaming Fund transfers are down \$109 million while Lottery Fund transfers declined \$37 million. In addition, in fiscal year 2008, \$80 million was transferred from the Hospital Provider Fund as part of the hospital assessment program and \$70 million was transferred from the Income Tax Refund Fund by this time last year.

Federal sources of revenue decreased \$193 million or 5.6%, due to a decline in Medicaid reimbursements as Illinois has been unable to pay many of its Medicaid bills in order to claim the federal reimbursements. The office was holding approximately \$342 million in Medicaid payables last year and had \$604 million this year.

Base Expenditures

Through March, base General Funds spending decreased \$403 million or 1.9% due to a substantial increase in vouchers payable. However, processed vouchers for awards and grants spending were up \$1.059 billion while operations were up \$312 million and transfers out were down \$142 million. General Funds appropriations are up \$963 million or 3.5% over last year. Through the first three quarters of fiscal year 2009, 74.2% of General Funds appropriations have been expended compared to 71.9% last year.

The increase in awards and grants spending was directly attributable to education spending. State Board of Education grants are up \$678 million or 14.3% (appropriations up \$329 million or 4.7%) while Teachers Retirement grants increased \$308 million or 36.8% (appropriations up \$155 million or 13.9%) and higher education grants were up \$84 million or 12.2% (appropriations up \$121 million or 14.6%).

It should be noted that Teachers Retirement System (TRS) grants were under appropriated by approximately \$255 million. The percentage increase in that spending throughout the remainder of the fiscal year is likely to be similar to what was seen in the first nine months as TRS uses continuing appropriation authority to receive their entire certified amount, absent any legislative changes in planned payments to the state's retirement systems. The rate of increase calculation in State Board of Education grant spending is affected by previously legislated changes in the general state aid payment schedule and total percentage growth in spending should fall by the end of June.

Aside from education grant spending, grant spending for Human Services increased \$61 million or 2.6%. Medicaid grant spending by the Department of Healthcare and Family Services also increased by \$7 million or 0.1%. Appropriations for fiscal year 2009 Medicaid grant spending of \$6.924 billion are up \$30 million or 0.4% over the prior year. All other grant spending declined by \$79 million or 6.8% in the first three quarters of fiscal year 2009.

Operations spending in the first three quarters increased \$312 million or 5.7% to \$5.815 billion. Higher education operations spending totaled \$1.408 billion (up \$137 million or 10.8%) and operations spending for all other agencies totaled \$4.407 billion (up \$175 million or 4.1%). Regular transfers out declined \$142 million or 6.4% through March.

What Lies Ahead

Without any changes to current trends, the prognosis for the final quarter of fiscal year 2009 is grim. With the U.S. still in the grip of a recession, the quarter that historically accounts for the largest percentage of Illinois' General Funds revenues will experience a significant decline in economy-driven revenues. The Governor's Fiscal Year 2010 Budget Book revenue estimates project fiscal year 2009 income and sales taxes to decline by \$1.854 billion from last year. In addition, the state must pay back \$1.4 billion in short-

term borrowing in the last quarter. Based on current trends, the Comptroller's Office is now projected to end the year (June 30) with a backlog of GRF bills exceeding \$4 billion, not including any normal lapse period expenditures pending. Beginning fiscal year 2010 with such a deficit would be financially unmanageable as July and August revenues would be insufficient to pay those bills and also address statutory and critical payments required to be made in the new fiscal year.

However, stimulus funding from the federal American Recovery and Reinvestment Act of 2009, as well as recommendations in the Governor's recent budget proposal could partially alleviate the impact of the fiscal year 2009 budget deficit. Included in the proposals were a 12 month short-term borrowing of up to \$2.3 billion and a drawdown plan for a portion of Illinois' share of the stimulus funds. The Governor's office estimates that Illinois can receive up to \$2.2 billion in Medicaid and education funding assistance for the General Funds in the remainder of fiscal year 2009. A portion of this budget "relief" is contingent on Illinois' accelerating the timing of selected Medicaid payment categories beyond the original budget plan for fiscal year 2009. Meeting these criteria increases the spending pressure for this fiscal year and requires a major revenue infusion that the aforementioned borrowing would provide. In any case, the impact of the federal stimulus on Illinois' bill backlog and the end of year payables will be significant.

The Governor's proposal for finishing out fiscal year 2009 also recommends a deferral of retirement contributions and transfers into GRF from other state funds – activities that would require legislative approval. Even if fiscal year 2009 federal stimulus funds are maximized, short-term borrowing occurs, and the Governor's other initiatives are enacted, fiscal year 2010 will likely represent one of the worst beginning fiscal positions in Illinois' history. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2008	2009		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 327	\$ 168	\$ (219)	\$ 642	\$ 141	\$ (501)	(78.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 757	\$ 721	\$ (36)	\$ 6,893	\$ 6,607	\$ (286)	(4.1) %
Corporate	340	284	(56)	1,120	943	(177)	(12.2)
Total, Income Taxes	<u>1,097</u>	<u>1,005</u>	<u>(92)</u>	<u>8,013</u>	<u>7,590</u>	<u>(423)</u>	<u>(5.3)</u>
Sales Taxes	560	498	(62)	5,411	5,170	(241)	(4.5)
Other Sources:							
Public Utility Taxes	102	127	25	853	878	25	2.9
Cigarette Taxes	29	29	0	263	263	0	0.0
Inheritance Tax (gross)	34	29	(5)	291	219	(72)	(24.7)
Liquor Gallonage Taxes	10	10	0	120	119	(1)	(0.8)
Insurance Tax and Fees	25	60	35	198	216	18	9.1
Corporation Franchise Tax and Fees	17	16	(1)	166	130	(36)	(9.6)
Investment Income	10	8	(2)	154	57	(97)	(63.0)
Cook County IGT	0	0	0	193	139	(54)	(17.6)
Other	33	31	(2)	330	312	(18)	(5.5)
Total, Other Sources	<u>260</u>	<u>310</u>	<u>50</u>	<u>2,568</u>	<u>2,373</u>	<u>(195)</u>	<u>(7.6)</u>
Total, Cash Receipts	<u>\$ 1,917</u>	<u>\$ 1,813</u>	<u>\$ (104)</u>	<u>\$ 15,992</u>	<u>\$ 15,133</u>	<u>\$ (859)</u>	<u>(5.4) %</u>
Transfers In:							
Lottery Fund	\$ 61	\$ 63	\$ 2	\$ 477	\$ 440	\$ (37)	(7.8) %
State Gaming Fund	25	25	0	454	345	(109)	(24.0)
Other Funds	44	38	(6)	371	248	(123)	(33.2)
Total, Transfers In	<u>\$ 130</u>	<u>\$ 126</u>	<u>\$ (4)</u>	<u>\$ 1,302</u>	<u>\$ 1,033</u>	<u>\$ (269)</u>	<u>(20.7) %</u>
Total, State Sources	<u>\$ 2,047</u>	<u>\$ 1,939</u>	<u>\$ (108)</u>	<u>\$ 17,294</u>	<u>\$ 16,166</u>	<u>\$ (1,128)</u>	<u>(6.5) %</u>
Federal Sources	<u>\$ 420</u>	<u>\$ 418</u>	<u>\$ (2)</u>	<u>\$ 3,463</u>	<u>\$ 3,270</u>	<u>\$ (193)</u>	<u>(5.6) %</u>
Total, Base Revenue	<u>\$ 2,467</u>	<u>\$ 2,357</u>	<u>\$ (110)</u>	<u>\$ 20,757</u>	<u>\$ 19,436</u>	<u>\$ (1,321)</u>	<u>(6.4) %</u>
Short Term Borrowing	0	0	0	1,200	1,400	200	16.7
Cash Flow Transfer	0	0	0	300	50	(250)	(83.3)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	<u>\$ 2,467</u>	<u>\$ 2,357</u>	<u>\$ (110)</u>	<u>\$ 22,533</u>	<u>\$ 21,162</u>	<u>\$ (1,371)</u>	<u>(6.1) %</u>
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 771	\$ 841	\$ 70	\$ 4,750	\$ 5,428	\$ 678	14.3 %
Healthcare and Family Services	667	548	(119)	5,199	5,206	7	0.1
Human Services	249	246	(3)	2,387	2,448	61	2.6
Teachers Retirement	93	127	34	837	1,145	308	36.8
Higher Education	65	74	9	686	770	84	12.2
All Other Grants	113	114	1	1,156	1,077	(79)	(6.8)
Total, Awards and Grants	<u>1,958</u>	<u>1,950</u>	<u>(8)</u>	<u>15,015</u>	<u>16,074</u>	<u>1,059</u>	<u>7.1</u>
Operations:							
Other Agencies	476	529	53	4,232	4,407	175	4.1
Higher Education	83	114	31	1,271	1,408	137	10.8
Total, Operations	<u>559</u>	<u>643</u>	<u>84</u>	<u>5,503</u>	<u>5,815</u>	<u>312</u>	<u>5.7</u>
Regular Transfers Out	300	194	(106)	2,219	2,077	(142)	(6.4)
All Other (Includes Prior Year Adjustments)	1	0	(1)	8	6	(2)	(25.0)
Vouchers Payable Adjustment	(234)	(513)	(279)	(1,280)	(2,910)	(1,630)	N/A
Total, Base Expenditures	<u>\$ 2,584</u>	<u>\$ 2,274</u>	<u>\$ (310)</u>	<u>\$ 21,465</u>	<u>\$ 21,062</u>	<u>\$ (403)</u>	<u>(1.9) %</u>
Cash Flow Transfer	0	0	0	1,200	50	(1,150)	(95.8)
Transfers to Repay Short-Term Borrowing	0	0	0	300	0	(300)	(100.0)
Total, Expenditures	<u>2,584</u>	<u>2,274</u>	<u>(310)</u>	<u>22,965</u>	<u>21,112</u>	<u>(1,853)</u>	<u>(8.1)</u>
AVAILABLE CASH BALANCE, ENDING	<u>\$ 210</u>	<u>\$ 191</u>	<u>\$ (19)</u>	<u>\$ 210</u>	<u>\$ 191</u>	<u>\$ (19)</u>	<u>(9.0) %</u>

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2008	2009		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 49	\$ 38	\$ (11)	\$ 224	\$ 48	\$ (176)	(78.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 702	\$ 668	\$ (34)	\$ 6,390	\$ 6,125	\$ (265)	(4.1) %
Corporate	315	263	(52)	1,038	911	(127)	(12.2)
Total, Income Taxes	1,017	931	(86)	7,428	7,036	(392)	(5.3)
Sales Taxes	421	374	(47)	4,055	3,870	(185)	(4.6)
Other Sources:							
Public Utility Taxes	94	116	22	770	792	22	2.9
Cigarette Taxes	15	15	0	134	134	0	0.0
Inheritance Tax (gross)	34	29	(5)	291	219	(72)	(24.7)
Liquor Gallonage Taxes	10	10	0	120	119	(1)	(0.8)
Insurance Tax and Fees	25	60	35	198	216	18	9.1
Corporation Franchise Tax and Fees	17	16	(1)	166	150	(16)	(9.6)
Investment Income	10	8	(2)	153	57	(96)	(62.7)
Cook County IGT	0	0	0	193	159	(34)	(17.6)
Other	32	31	(1)	327	309	(18)	(5.5)
Total, Other Sources	237	285	48	2,352	2,155	(197)	(8.4)
Total, Cash Receipts	\$ 1,675	\$ 1,590	\$ (85)	\$ 13,835	\$ 13,061	\$ (774)	(5.6) %
Transfers In	44	38	(6)	371	248	(123)	(33.2)
Total, State Sources	\$ 1,719	\$ 1,628	\$ (91)	\$ 14,206	\$ 13,309	\$ (897)	(6.3) %
Federal Sources	420	418	(2)	3,463	3,270	(193)	(5.6)
Total, Base Revenues	\$ 2,139	\$ 2,046	\$ (93)	\$ 17,669	\$ 16,579	\$ (1,090)	(6.2) %
Short Term Borrowing	0	0	0	1,200	1,400	200	16.7
Cash Flow Transfer	0	0	0	300	50	(250)	(83.3)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,139	\$ 2,046	\$ (93)	\$ 19,445	\$ 18,305	\$ (1,140)	(5.9) %
Expenditures:							
Awards and Grants:							
Healthcare and Family Services	\$ 667	\$ 348	\$ (319)	\$ 5,199	\$ 5,206	\$ 7	0.1 %
Elementary and Secondary Education	379	420	41	1,684	1,919	235	14.0
Human Services	249	246	(3)	2,387	2,448	61	2.6
Higher Education	65	9	(56)	686	395	(291)	(42.4)
Children and Family Services	54	52	(2)	526	462	(64)	(12.2)
All Other Grants	60	62	2	637	623	(14)	(2.2)
Total, Awards and Grants	1,474	1,337	(137)	11,119	11,053	(66)	(0.6)
Operations:							
Other Agencies	470	523	53	4,180	4,350	170	4.1
Higher Education	83	76	(7)	1,271	1,330	59	4.6
Total, Operations	553	599	46	5,451	5,680	229	4.2
Regular Transfers Out	367	552	185	2,839	4,355	1,516	53.4
All Other (Includes Prior Adjustments)	1	0	(1)	13	6	(7)	(53.8)
Vouchers Payable Adjustment	(234)	(462)	(228)	(1,280)	(2,849)	(1,569)	N/A
Total, Base Expenditures	\$ 2,161	\$ 2,026	\$ (135)	\$ 18,142	\$ 18,245	\$ 103	0.6 %
Cash Flow Transfer	0	0	0	1,200	50	(1,150)	(95.8)
Transfers to Repay Short-Term Borrowing	0	0	0	300	0	(300)	0.0
Total, Expenditures	2,161	2,026	(135)	19,642	18,295	(1,347)	(6.9)
AVAILABLE CASH BALANCE, ENDING	\$ 27	\$ 58	\$ 31	\$ 27	\$ 58	\$ 31	114.8 %