

Comptroller's Quarterly

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FY 2009 STATE REVENUES FALL 9% PAYMENT BACKLOG UNPRECEDENTED

Throughout fiscal year 2009, the state's cash flow position continued to deteriorate rapidly as the recession deepened and the state ended the year in the worst fiscal position in modern times. At the end of June the backlog of unpaid bills in the Comptroller's Office (IOC) stood at \$2.785 billion while last year payables totaled \$208 million. Just as important, the delay in paying bills was 99 working days this June compared to seven days at this time last year. Both the amounts payable and the days delayed are record highs.

This backlog would have been even higher absent a 12-month "failure in revenue" short-term borrowing of \$1 billion in May. The proceeds of this borrowing were primarily dedicated to paying an additional \$1 billion in Medicaid payments. This was needed to comply with the 30-day payment cycle requirement on certain Medicaid bills for the state to receive the enhanced Medicaid matching rate included in the federal American Recovery and Reinvestment Act of 2009.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on June 30, 2009 to be a negative \$2.781 billion. This is the lowest end of year balance on the chart and will be the lowest budgetary balance (cash balance minus lapse period spending) in history. A few factors have had a major impact on the cash flow position – the state's economy driven revenues weakened significantly, including gambling revenues, and spending continued to grow.

Base spending, excluding the backlog of payables, for the year was down 0.6%.

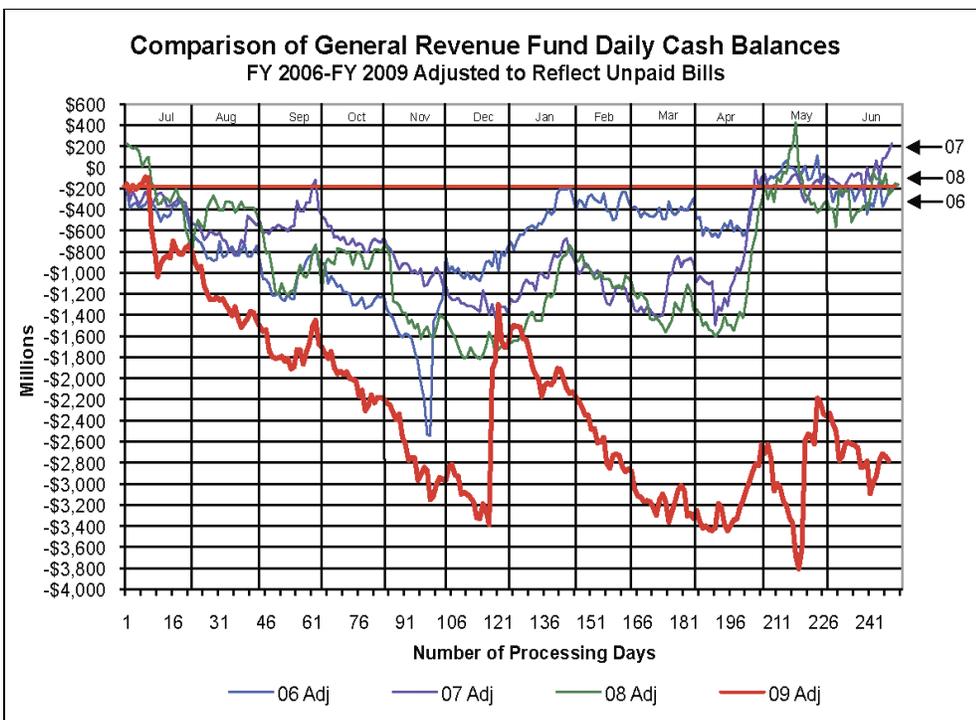
However, including payables, spending growth was up 6.6% due to a 36.8% increase in teacher retirement grants, growth of 6.2% in operations spending which includes increased retirement contributions, and the previously mentioned growth in Medicaid.

It is the decline in economic revenue sources that greatly impacted the state's ability to pay its bills. Corporate income tax receipts were down 8.1%, sales tax receipts decreased \$442 million or 6.1%, and individual income tax receipts fell \$1.097 billion or 10.6%. These declines were partially offset by extra federal revenues from the stimulus program, although additional Medicaid spending

beyond the original fiscal year 2009 budget plan was required in order for the state to obtain some of the federal money.

Base Revenues

At the end of fiscal year 2009, base revenues decreased \$515 million or 1.7% for a total of \$29.144 billion. State sources of revenue were down \$2.267 billion or 9.1% while federal sources increased \$1.752 billion (36.4%) which includes \$1.566 billion tied to the federal stimulus legislation. At the end of year, income taxes had decreased \$1.247 billion with individual income taxes down \$1.097 billion (10.6%) while corporate income taxes declined \$150 million (8.1%).



With the recession impacting economy-driven revenues, sales tax receipts decreased \$442 million or 6.1%.

Cash receipts from other sources decreased \$271 million or 7.6% due primarily to the expected declines in investment income (down \$131 million or 61.8%), inheritance tax receipts (down \$85 million or 22.8%), Cook County IGT (down \$49 million), and corporate franchise tax (down \$24 million). The only state sources of revenue to increase for the year were insurance taxes (up \$36 million) and public utility taxes (up \$11 million).

For fiscal year 2009, transfers in decreased by \$307 million. State Gaming Fund transfers are down \$134 million while Lottery Fund transfers declined \$32 million. All other transfers declined \$141 million; in fiscal year 2008, an additional \$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.

Federal sources of revenue increased \$1.752 billion or 36.4%, due to the federal stimulus plan which generated \$1.566 billion for the General Revenue Fund in fiscal year 2009. Federal stimulus money was received primarily for education spending and Medicaid spending.

Base Expenditures

Through June, base General Funds actual spending decreased \$179 million or 0.6% due to a substantial increase in vouchers payable. However, if cash had been available to meet all demands then base spending would have increased by \$2.006 billion for the year. Awards and grants spending grew \$1.788 billion while operations increased by \$426 million and regular transfers out were down \$202 million. Fiscal year 2009 General Funds appropriations increased \$2.9 billion or 10.5% over fiscal year 2008 after the addition of supplemental spending (primarily for Medicaid) and full pension contribution funding.

Medicaid grant spending by the Department of Healthcare and Family Services increased by \$957 million or 13.8%. Appropriations for fiscal year 2009

Medicaid grant spending of \$8.415 billion were up \$1.521 billion or 22.1% over the prior year. Of the \$957 million increase in spending over the course of the fiscal year, \$950 million occurred in the final quarter as the state borrowed \$1.0 billion in an effort to meet the 30-day payment cycle for specific Medicaid lines in order to capture an increase in federal reimbursement rates. Over half of the increase (53.1%) in awards and grants was for Medicaid spending.

The rest of the increase in awards and grants spending is directly attributable to education spending. State Board of Education grants were up \$404 million or 5.8% while Teachers Retirement grants increased \$411 million or 36.8% and higher education grants were up \$59 million or 7.2%.

Aside from Medicaid and education grant spending, grant spending for Human Services decreased \$17 million or 0.6%. All other grant spending declined by \$26 million or 1.8% through June.

Operations spending through June increased \$426 million or 6.2% to \$7.332 billion. Higher education operations spending totaled \$1.523 billion (up \$151 million or 11.0%) and operations spending for all other agencies totaled \$5.809 billion (up \$275 million or 5.0%).

What Lies Ahead

Without any changes to current trends, the prognosis for fiscal year 2010 is disturbing. With the state ending fiscal year 2009 holding \$2.8 billion in payables and 20-week delays on payments from the General Revenue Fund, the demands on cash management will be unprecedented. Depending to some extent on when a fiscal year 2010 budget is finalized, bills submitted during this year's lapse period may add an additional \$500 million to \$1 billion to fiscal year 2009 liabilities. (Bills submitted during last year's lapse period totaled \$767 million.) Including the payback of \$1 billion in short-term borrowing, approximately 20% of state sources of revenue in fiscal year 2010 would be needed to pay fiscal year 2009 liabilities.

With the economy still in the grip of a recession, the forecast for state sources of

revenue in the coming months points to a continuing decline compared to last year, primarily in economy-driven revenues. Even additional federal stimulus revenues may be insufficient to allow the backlog to be reduced. Illinois' eligibility for a portion of the stimulus funds is contingent on a 30-day payment cycle for certain Medicaid payables that will compound cash management pressures. It appears that by the end of lapse period (August 31) the state may still have up to \$3 billion in backlogged bills remaining to be paid not including the repayment of \$1 billion in short-term borrowing due next calendar year.

This backlog of vouchers will take many months to be paid. Originally the Governor had proposed a \$1.25 billion short-term borrowing for June. Obviously, a borrowing would have helped to reduce the payables and the number of days the state is in arrears in paying its bills. While a short-term borrowing in the lapse period would also help, the repayment of that additional borrowing may create payment issues in the latter half of fiscal year 2010.

A critical problem will be the state's ability to sustain vital ongoing payments for the operation of state government. Many payments each month are required such as debt service on bonds, Temporary Assistance to Needy Families (TANF) payments, general state aid for schools and payrolls. Now selected Medicaid payments have to be paid within 30 days to continue to qualify for the federal stimulus enhanced Medicaid match revenues.

This leaves a relatively small portion of incoming revenues available for the rest of the state's bills. Some of these bills that the state now struggles to pay include payments to vendors that provide vital services to vulnerable segments of the population or are integral to public safety as well as many other services necessary to the operation of state government. Meanwhile, many social service providers and other vendors are suffering keen financial distress or are in danger of being put out of business due to the State's inability to pay its bills. At this point, with no fiscal year 2010 budget in place, these difficulties will remain unaddressed. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	Jan		Change	Twelve Months		Change	
	2008	2009		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 374	\$ 242	\$ (132)	\$ 642	\$ 141	\$ (501)	(78.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 899	\$ 765	\$ (134)	\$ 10,320	\$ 9,223	\$ (1,097)	(10.6) %
Corporate	262	154	(108)	1,860	1,710	(150)	(8.1)
Total, Income Taxes	1,161	919	(242)	12,180	10,933	(1,247)	(10.2)
Sales Taxes	622	573	(49)	7,215	6,773	(442)	(6.1)
Other Sources:							
Public Utility Taxes	73	76	3	1,157	1,168	11	1.0
Cigarette Taxes	29	29	0	350	350	0	0.0
Inheritance Tax (gross)	30	34	4	373	288	(85)	(22.8)
Liquor Gallonage Taxes	14	13	(1)	158	158	0	0.0
Insurance Tax and Fees	54	61	7	298	334	36	12.1
Corporation Franchise Tax and Fees	15	17	2	225	201	(24)	(10.7)
Investment Income	22	10	(12)	212	81	(131)	(61.8)
Cook County IGT	0	0	0	302	253	(49)	(16.2)
Other	68	63	(5)	474	445	(29)	(6.1)
Total, Other Sources	305	303	(2)	3,549	3,278	(271)	(7.6)
Total, Cash Receipts	\$ 2,088	\$ 1,795	\$ (293)	\$ 22,944	\$ 20,984	\$ (1,960)	(8.5) %
Transfers In:							
Lottery Fund	\$ 62	\$ 66	\$ 4	\$ 657	\$ 625	\$ (32)	(4.9) %
State Gaming Fund	40	30	(10)	564	430	(134)	(23.8)
Other Funds	116	185	69	679	538	(141)	(20.8)
Total, Transfers In	\$ 218	\$ 281	\$ 63	\$ 1,900	\$ 1,593	\$ (307)	(16.2) %
Total, State Sources	\$ 2,306	\$ 2,076	\$ (230)	\$ 24,844	\$ 22,577	\$ (2,267)	(9.1) %
Federal Sources	\$ 316	\$ 836	\$ 520	\$ 4,815	\$ 6,567	\$ 1,752	36.4 %
Total, Base Revenues	\$ 2,622	\$ 2,912	\$ 290	\$ 29,659	\$ 29,144	\$ (515)	(1.7) %
Short-Term Borrowing	0	0	0	2,400	2,400	0	0.0
Cash Flow Transfer	301	50	(251)	1,503	300	(1,203)	(80.0)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,923	\$ 2,962	\$ 39	\$ 33,838	\$ 32,120	\$ (1,718)	(5.1) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 1,190	\$ 815	\$ (375)	\$ 6,925	\$ 7,329	\$ 404	5.8 %
Healthcare and Family Services	413	917	504	6,954	7,911	957	13.8
Human Services	148	141	(7)	3,026	3,009	(17)	(0.6)
Teachers Retirement	93	127	34	1,116	1,527	411	36.8
Higher Education	43	5	(38)	817	876	59	7.2
All Other Grants	83	77	(6)	1,409	1,383	(26)	(1.8)
Total, Awards and Grants	1,970	2,082	112	20,247	22,035	1,788	8.8
Operations:							
Other Agencies	402	463	61	5,534	5,809	275	5.0
Higher Education	9	44	35	1,372	1,523	151	11.0
Total, Operations	411	507	96	6,906	7,332	426	6.2
Regular Transfers Out	279	391	112	3,201	2,999	(202)	(6.3)
All Other (Includes Prior Year Adjustments)	2	0	(2)	13	7	(6)	(46.2)
Vouchers Payable Adjustment	193	(588)	(881)	(207)	(2,392)	(2,185)	N/A
Total, Base Expenditures	\$ 2,855	\$ 2,292	\$ (563)	\$ 30,160	\$ 29,981	\$ (179)	(0.6) %
Cash Flow Transfer	0	50	50	3,302	300	(3,002)	(90.9)
Transfers to Repay Short-Term Borrowing	301	582	281	877	1,700	823	93.8
Total, Expenditures	3,156	2,924	(232)	34,339	31,981	(2,358)	(6.9)
AVAILABLE CASH BALANCE, ENDING	\$ 141	\$ 280	\$ 139	\$ 141	\$ 280	\$ 139	98.6 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2008	2009		FY 2008	FY 2009	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 29	\$ 10	\$ (19)	\$ 224	\$ 48	\$ (176)	(78.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 833	\$ 709	\$ (124)	\$ 9,567	\$ 8,550	\$ (1,017)	(10.6) %
Corporate	243	143	(100)	1,724	1,585	(139)	(8.1)
Total, Income Taxes	1,076	852	(224)	11,291	10,135	(1,156)	(10.2)
Sales Taxes	467	430	(37)	5,409	5,074	(335)	(6.2)
Other Sources:							
Public Utility Taxes	65	67	2	1,047	1,054	7	0.7
Cigarette Taxes	15	15	0	179	179	0	0.0
Inheritance Tax (gross)	30	34	4	373	288	(85)	(22.8)
Liquor Gallonage Taxes	14	13	(1)	158	158	0	0.0
Insurance Tax and Fees	54	61	7	298	334	36	12.1
Corporation Franchise Tax and Fees	15	17	2	225	201	(24)	(10.7)
Investment Income	22	10	(12)	210	80	(130)	(61.9)
Cook County IGT	0	0	0	302	253	(49)	(16.2)
Other	68	63	(5)	469	441	(28)	(6.0)
Total, Other Sources	283	280	(3)	3,261	2,988	(273)	(8.4)
Total, Cash Receipts	\$ 1,826	\$ 1,562	\$ (264)	\$ 19,961	\$ 18,197	\$ (1,764)	(8.8) %
Transfers In	116	185	69	679	537	(142)	(20.9)
Total, State Sources	\$ 1,942	\$ 1,747	\$ (195)	\$ 20,640	\$ 18,734	\$ (1,906)	(9.2) %
Federal Sources	316	836	520	4,815	6,567	1,752	36.4
Total, Base Revenues	\$ 2,258	\$ 2,583	\$ 325	\$ 25,455	\$ 25,301	\$ (154)	(0.6) %
Short Term Borrowing	0	0	0	2,400	2,400	0	0.0
Cash Flow Transfer	301	50	(251)	1,503	300	(1,203)	(80.0)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,559	\$ 2,633	\$ 74	\$ 29,634	\$ 28,277	\$ (1,357)	(4.6) %
Expenditures:							
Awards and Grants:							
Healthcare and Family Services	\$ 413	\$ 917	\$ 504	\$ 6,954	\$ 7,911	\$ 957	13.8 %
Elementary and Secondary Education	412	703	291	2,227	3,429	1,202	54.0
Human Services	148	141	(7)	3,026	3,009	(17)	(0.6)
Higher Education	43	4	(39)	817	476	(341)	(41.7)
Children and Family Services	11	30	19	585	590	5	0.9
All Other Grants	73	47	(26)	834	803	(31)	(3.7)
Total, Awards and Grants	1,100	1,842	742	14,443	16,218	1,775	12.3
Operations:							
Other Agencies	397	456	59	5,465	5,734	269	4.9
Higher Education	9	6	(3)	1,372	1,369	(3)	(0.2)
Total, Operations	406	462	56	6,837	7,103	266	3.9
Regular Transfers Out	538	391	(147)	4,540	5,385	845	18.6
All Other (Includes Prior Adjustments)	2	0	(2)	18	7	(11)	(61.1)
Vouchers Payable Adjustment	193	(688)	(881)	(207)	(2,392)	(2,185)	N/A
Total, Base Expenditures	\$ 2,239	\$ 2,007	\$ (232)	\$ 25,631	\$ 26,321	\$ 690	2.7 %
Cash Flow Transfer	0	50	50	3,302	300	(3,002)	(90.9)
Transfers to Repay Short-Term Borrowing	301	582	281	877	1,700	823	0.0
Total, Expenditures	2,540	2,639	99	29,810	28,321	(1,489)	(5.0)
AVAILABLE CASH BALANCE, ENDING	\$ 48	\$ 4	\$ (44)	\$ 48	\$ 4	\$ (44)	(91.7) %