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Comptroller's CQ Quarterly

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ILLINOIS STEPS BACK FROM EDGE OF ABYSS

…but long-term financial challenges remain

Actions taken in the first three quarters of fiscal year 2011 have allowed the state of Illinois to gain revenue and avoid financial catastrophe in the short-term, but a massive bill backlog and substantial long-term challenges remain as it enters the final quarter.

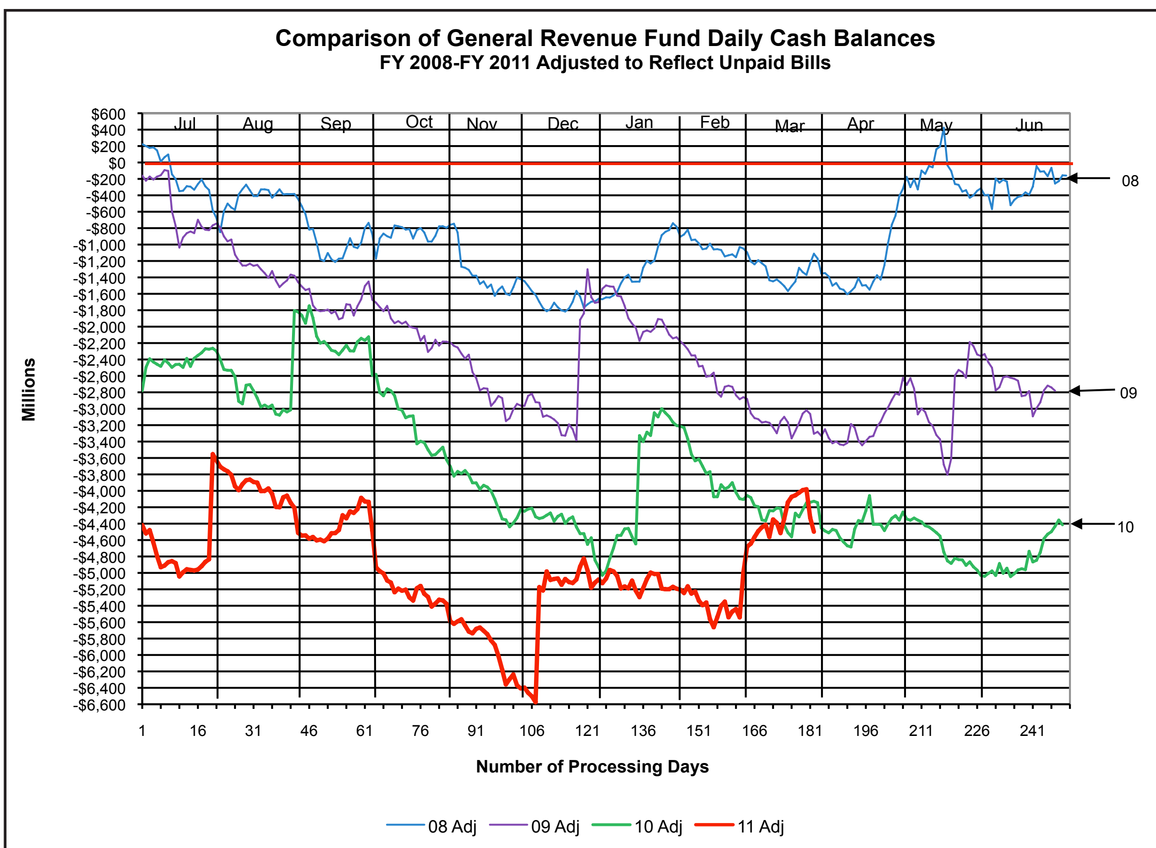
In all, state source base revenues have increased more than 14 percent so far this fiscal year, but more than 70 percent of that growth is attributable to two one-time revenue sources: the sale of the state's tobacco bonds and receipts from the fall tax amnesty program. Most recently, Illinois further increased its cash flow by raising the individual income tax rate from 3.0 percent to 5.0 percent, and the corporate income tax rate from 4.8 to 7.0 percent – though the state is just now beginning to see those dollars.

Even with the increased revenues, the state's General Revenue Fund bill backlog has remained near or above record highs. At the end of March, the Office of the Comptroller had $4.515 billion in unpaid bills with some vouchers dating back to mid-October 2010, compared to the $4.496 billion it had on hand at the same time last year. Given the log jam, the Comptroller's Office has had to prioritize critical payments such as debt service and other funding vital to the operation of state programs, such as General State Aid to school districts.

Further adding to the backlog is the ongoing need to prioritize Medicaid disbursements in order to receive increased federal stimulus-related "match" funding. Specifically, the federal share of Medicaid payments dropped from 59 to 57 percent in April, and will fall to 50 percent after June 30th. As a result, the state is expediting payment on the medical bills. While the action will ultimately save Illinois dollars, it limits funding to address other needs in the short-term.

Still, the backlog would be even more substantial if not for the $3.7 billion in pension funding bonds issued in March, which was used to pay the majority of the state's obligations to the retirement system in fiscal year 2011. Additional bond revenues were used to repay the General Funds for retirement payments already made during the fiscal year. By reversing in March the vouchers submitted for this year's retirement payments, the state greatly reduced its backlog.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on March 31, 2011 to be a negative $4.499 billion. Throughout the first eight months the adjusted balances were consistently lower than previous years – only after the sale of the pen-



sion bonds and growth in income tax revenue was the adjusted balance close to what was seen in 2010.

BASE REVENUES

The combination of tobacco bond proceeds, the tax amnesty program and the increase in tax rates led to a General Funds total base revenue increase of $1.536 billion, or 7.3 percent. Specifically, individual income tax receipts grew $1.057 billion or 17.4 percent through nine months, while corporate income tax revenue increased by $240 million, or 27.6 percent. The state's tax amnesty contributed to this revenue growth, delivering $36 million in individual income tax receipts and $215 million in corporate income tax revenue. Additionally, a decrease in the percent allocated to the Income Tax Refund Fund for fiscal year 2011 boosted the increase in individual income tax receipts deposited into the General Funds.

Other factors impacting the state's base revenues so far this year include:

- SALES TAX: An improving economy increased sales tax revenues by $414 million, or 8.9 percent – though $164 million of that total was due to tax amnesty.
- TRANSFERS: Transfers in have grown by $576 million so far this year, aided greatly by the transfer of $1.25 billion of tobacco bond proceeds from the Tobacco Settlement Recovery Fund in December 2010. Although the state issued pension bonds for fiscal years 2010 and 2011, transfers from the Pension Contribution Fund (to repay General Funds for retirement payments earlier in the year) are down $619 million in fiscal year 2011. Transfers from the Capital Projects Fund are up year-to-date as those transfers did not begin until December last fiscal year. And while Lottery Fund transfers increased slightly, riverboat gambling transfers decreased $29 million, or 10.1 percent. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund or interfund borrowing of $496 million.
- FEDERAL REVENUE: Given a $955 million decline in stimulus funding for education in fiscal year 2011, federal revenues declined $745 million, or 14.8 percent, through the third quarter. The decline would have been more substantial if not for an increase in the federal reimbursement of Medicaid payments.
- OTHER RECEIPTS: All other state receipts are down $6 million, or 0.3 percent from the previous fiscal year. Specifically, public utility tax receipts increased $29 million, while inheritance tax receipts dropped by $49 million.

BASE EXPENDITURES

General Funds spending increased by $2.45 billion, or 11.3 percent, in the first three quarters of fiscal year 2011. Spending increased $419 million and $891 million in February and March respectively, but was down $848 million in January. The shift across the months is due in part to the timing of this year's pension bond sale which occurred in March instead of January this year.

Through nine months of fiscal year 2011, base expenditures have increased by $2.45 billion. Healthcare and Family Services had the largest increase in vouchers presented for payment among the major agencies of $537 million or 9.0 percent. Vouchers presented by the State Board of Education are down $250 million, or 4.7 percent, through the first three quarters of the fiscal year. The Teachers Retirement System and Higher Education are down $660 million and $67 million, respectively, year-to-date as a larger share of this year's pension payments were funded directly by bond proceeds. Both of these entities had large declines in March due to the reversal of retirement vouchers which were paid instead by the pension bonds.

Finally, transfers out for the first nine months of fiscal year 2011 increased by $1.997 billion, or 115.4 percent, when compared to last year. A major portion of that increase is attributed to the debt service payment from the pension bonds issued in fiscal year 2010.

WHAT LIES AHEAD

While the state took action to increase its immediate cash flow, its fiscal standing remains precarious. Upcoming challenges include having to pay back $1.3 billion from the July 2010 short-term borrowing over the next three months. While that amount is lower than what was outstanding at this time last year, the state shifted over $2 billion in Medicaid spending to other state funds in the fourth quarter of fiscal year 2010 which may not be repeated this time around. Additionally, the state has higher monthly debt service obligations than it did last year.

In the next three months, the state will need to prioritize payments on short-term borrowing and its monthly debt service obligations. Medicaid payments also will take priority, as the increased federal match rate expires June 30, 2011. While tax revenues have grown, the state's bill backlog is not likely to decrease significantly from the current levels, or the levels seen at the end of fiscal year 2010, if current trends hold.

If the backlog of General Funds bills at the end of the fiscal year is indeed similar to last year, the state will be unable to close the fiscal year 2011 lapse period by the traditional August end. In fact, Illinois was unable to pay off all of fiscal year 2010's liabilities until December 31st last year, and could face similar challenges this year. If that is indeed the case, the amount of fiscal year 2011 liabilities carried over would impact the fiscal year 2012 cash position as well, meaning any revenues used to pay for fiscal year 2011 bills will be unavailable for the following year's obligations. A potentially large lapse period obligation and higher monthly GRF debt service transfers in fiscal year 2012 suggest that absent significant adjustments to the fiscal year 2012 budget plans, Illinois will continue to operate at a deficit in the months ahead. ■

Exhibit 1

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	March 2010	March 2011	Change	Nine Months FY 2010	Nine Months FY 2011	Change Amount	Change Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 106	$ 138	$ 32	$ 280	$ 130	$ (150)	(53.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 728	$ 1,260	$ 532	$ 6,071	$ 7,128	$ 1,057	17.4 %
Corporate	253	276	23	871	1,111	240	27.6
Total, Income Taxes	981	1,536	555	6,942	8,239	1,297	18.7
Sales Taxes	495	521	26	4,664	5,078	414	8.9
Other Sources:							
Public Utility Taxes	128	136	8	830	859	29	3.5
Cigarette Taxes	29	29	0	263	266	3	1.1
Inheritance Tax (gross)	23	1	(22)	167	118	(49)	(29.3)
Liquor Gallonage Taxes	10	11	1	120	119	(1)	(0.8)
Insurance Tax and Fees	30	37	7	204	200	(4)	(2.0)
Corporation Franchise Tax and Fees	19	22	3	157	162	5	3.2
Investment Income	3	3	0	20	25	5	25.0
Cook County IGT	0	0	0	150	150	0	0.0
Other	41	36	(5)	313	319	6	1.9
Total, Other Sources	283	275	(8)	2,224	2,218	(6)	(0.3)
Total, Cash Receipts	$ 1,759	$ 2,332	$ 573	$ 13,830	$ 15,535	$ 1,705	12.3 %
Transfers In:							
Lottery Fund	$ 63	$ 64	$ 1	$ 440	$ 445	$ 5	1.1 %
State Gaming Fund	10	17	7	288	259	(29)	(10.1)
Other Funds	65	305	240	1,386	1,986	600	43.3
Total, Transfers In	$ 138	$ 386	$ 248	$ 2,114	$ 2,690	$ 576	27.2 %
Total, State Sources	$ 1,897	$ 2,718	$ 821	$ 15,944	$ 18,225	$ 2,281	14.3 %
Federal Sources	$ 935	$ 591	$ (344)	$ 5,027	$ 4,282	$ (745)	(14.8) %
Total, Base Revenues	**$ 2,832**	**$ 3,309**	**$ 477**	**$ 20,971**	**$ 22,507**	**$ 1,536**	**7.3 %**
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	142	142	0	496	496	N/A
Cash Flow Transfer	60	0	(60)	450	0	(450)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	276	235	(41)	(14.9)
Total, Revenues	$ 2,892	$ 3,451	$ 559	$ 22,947	$ 24,538	$ 1,591	6.9 %
Expenditures:							
By Agency:							
Healthcare and Family Services	$ 775	$ 1,040	$ 265	$ 5,952	$ 6,489	$ 537	9.0 %
State Board of Education	864	819	(45)	5,376	5,126	(250)	(4.7)
Human Services	333	321	(12)	3,133	3,117	(16)	(0.5)
Teachers Retirement	10	(1,194)	(1,204)	926	266	(660)	(71.3)
Higher Education	194	(373)	(567)	2,048	1,981	(67)	(3.3)
Corrections	101	101	0	901	898	(3)	(0.3)
Children and Family Services	59	83	24	689	704	15	2.2
Aging	53	69	16	466	514	48	10.3
State Police	18	21	3	209	199	(10)	(4.8)
All Other	132	(255)	(387)	1,257	1,339	82	6.5
Total	$ 2,539	$ 632	$ (1,907)	$ 20,957	$ 20,633	$ (324)	(1.5) %
Regular Transfers Out	183	282	99	1,730	3,727	1,997	115.4
Prior Year Adjustments	(2)	(4)	(2)	(15)	(15)	0	0.0
Vouchers Payable Adjustment	(372)	2,329	2,701	(1,080)	(303)	777	N/A
Total, Base Expenditures	**$ 2,348**	**$ 3,239**	**$ 891**	**$ 21,592**	**$ 24,042**	**$ 2,450**	**11.3 %**
Cash Flow Transfer	0	60	60	665	60	(605)	(91.0)
Transfers to Budget Stabilization Fund	0	0	0	0	276	276	0.0
Transfers to Repay Short-Term Borrowing	288	160	(128)	608	160	(448)	(73.7)
Total, Expenditures	2,636	3,459	823	22,865	24,538	1,673	7.3
AVAILABLE CASH BALANCE, ENDING	$ 362	$ 130	$ (232)	$ 362	$ 130	$ (232)	(64.1) %

Exhibit 1A

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	March 2010	March 2011	Change	Nine Months FY 2010	Nine Months FY 2011	Change Amount	Change Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 5	$ 61	$ 56	$ 4	$ 20	$ 16	400.0 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 675	$ 1,168	$ 493	$ 5,628	$ 6,591	$ 963	17.1 %
Corporate	234	256	22	807	930	123	15.2
Total, Income Taxes	909	1,424	515	6,435	7,521	1,086	16.9
Sales Taxes	371	391	20	3,485	3,746	261	7.5
Other Sources:							
Public Utility Taxes	117	124	7	749	775	26	3.5
Cigarette Taxes	19	23	4	161	179	18	11.2
Inheritance Tax (gross)	23	1	(22)	167	118	(49)	(29.3)
Liquor Gallonage Taxes	10	11	1	120	119	(1)	(0.8)
Insurance Tax and Fees	30	37	7	204	200	(4)	(2.0)
Corporation Franchise Tax and Fees	19	22	3	157	162	5	3.2
Investment Income	3	3	0	20	25	5	25.0
Cook County IGT	0	0	0	150	150	0	0.0
Other	41	36	(5)	311	316	5	1.6
Total, Other Sources	262	257	(5)	2,039	2,044	5	0.2
Total, Cash Receipts	$ 1,542	$ 2,072	$ 530	$ 11,959	$ 13,311	$ 1,352	11.3 %
Transfers In	65	135	70	550	1,814	1,264	229.8
Total, State Sources	$ 1,607	$ 2,207	$ 600	$ 12,509	$ 15,125	$ 2,616	20.9 %
Federal Sources	$ 935	$ 591	$ (344)	$ 5,027	$ 4,282	$ (745)	(14.8) %
Total, Base Revenues	**$ 2,542**	**$ 2,798**	**$ 256**	**$ 17,536**	**$ 19,407**	**$ 1,871**	**10.7 %**
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	142	142	0	496	496	N/A
Cash Flow Transfer	60	0	(60)	450	0	(450)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	276	235	(41)	(14.9)
Total, Revenues	$ 2,602	$ 2,940	$ 338	$ 19,512	$ 21,438	$ 1,926	9.9 %
Expenditures:							
By Agency							
Healthcare and Family Services	$ 775	$ 1,040	265	$ 5,952	6,489	537	9.0
State Board of Education	838	402	(436)	2,876	1,770	(1,106)	(38.5)
Human Services	333	321	(12)	3,133	3,117	(16)	(0.5)
Higher Education	194	(390)	(584)	1,896	1,829	(67)	(3.5)
Corrections	101	101	0	901	898	(3)	(0.3)
Children and Family Services	59	83	24	689	704	15	2.2
Aging	53	69	16	466	514	48	10.3
State Police	18	21	3	209	199	(10)	(4.8)
All Other	132	(255)	(387)	1,262	1,350	88	7.0
Total	$ 2,503	$ 1,392	$ (1,111)	$ 17,384	$ 16,870	$ (514)	(3.0) %
Regular Transfers Out	183	333	150	1,947	4,455	2,508	128.8
Prior Year Adjustments	(2)	(3)	(1)	(15)	(16)	(1)	6.7
Vouchers Payable Adjustment	(372)	1,043	1,415	(1,080)	(363)	717	N/A
Total, Base Expenditures	**$ 2,312**	**$ 2,765**	**$ 453**	**$ 18,236**	**$ 20,946**	**$ 2,710**	**14.9 %**
Cash Flow Transfer	0	60	60	665	60	(605)	(91.0)
Transfers to Budget Stabilization Fund	0	0	0	0	276	276	0.0
Transfers to Repay Short-Term Borrowing	288	160	(128)	608	160	(448)	(73.7)
Total, Expenditures	2,600	2,985	385	19,509	21,442	1,933	9.9
AVAILABLE CASH BALANCE, ENDING	$ 7	$ 16	$ 9	$ 7	$ 16	$ 9	128.6 %

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