

# Comptroller's Quarterly

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## BILL BACKLOG DROPS ... FOR NOW

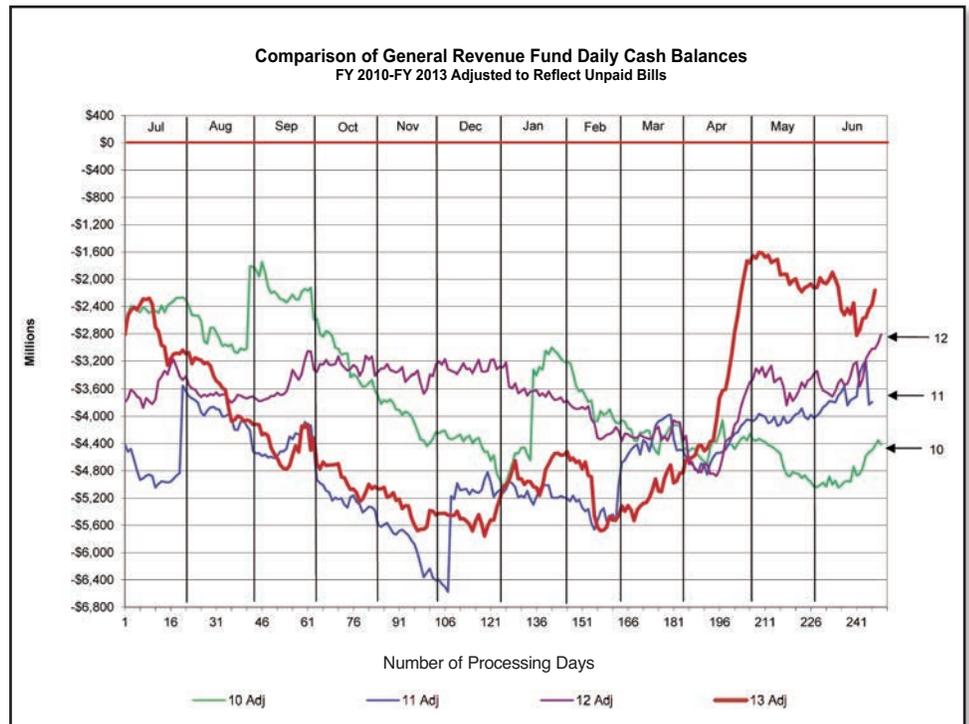
*Payment delays expected to grow in coming months*

Illinois concluded fiscal year 2013 with an overall bill backlog that was \$1.4 billion smaller than the same time last year, but the financial improvement is expected to be short-lived. The state moved into fiscal year 2014 with an estimated total bill backlog of \$6.1 billion, compared to \$7.5 billion one year ago.

The Comptroller's Office ended the fiscal year with \$3.280 billion in General Funds payables, an improvement of \$376 million from one year ago. Specifically, the IOC had \$2.197 billion in General Revenue Fund bills, \$752 million in Education Assistance Fund bills and \$330 million in Common School Fund payables. The backlog of bills at IOC accounts for only what has been submitted for processing and not what is held at other state agencies.

That progress was due largely to the state collecting \$1.3 billion more than expected during the Spring tax season. Seen as a one-time occurrence, the revenue windfall came as residents and businesses accelerated transactions to take advantage of the 2012 federal tax rates.

Following the receipt of these unexpected revenues, the General Assembly passed P.A. 98-11 and P.A. 98-17, authorizing an additional \$1.2 billion in fiscal year 2013 General Funds supplemental appropriation authority. The additional spending was passed primarily to address exhausted appropriations for healthcare and social service programs. The state agencies have not utilized all of these appropriation increases, so the IOC backlog is expected to grow in coming weeks as the state begins its budgetary lapse period.



The chart of adjusted General Revenue Fund (GRF) balances on June 30, 2013 shows a negative balance of \$2.162 billion. At the same time last year, the adjusted GRF balance was a negative \$2.810 billion. This does not include the other General Funds which have slightly larger backlogs than last year.

In fiscal year 2013, base revenues increased by 7.5 percent led by a growth in income tax collections of 9.7 percent. Base expenditures grew by 7.4 percent led by increases in retirement contributions and transfers out of the General Funds into other state funds.

### BASE REVENUES

Revenue growth for fiscal year 2013 was

due to a combination of increases in income tax receipts, transfers in, and federal revenues. General Funds total base revenue increased \$2.531 billion, or 7.5 percent, through the end of June. Factors impacting the state's base revenues this year include:

- **INDIVIDUAL INCOME TAXES:** Individual income tax receipts increased \$1.026 billion, or 6.6 percent, through fiscal year 2013. Additionally, the change in the percentage allocated to the Refund Fund has impacted receipts. Specifically, the share of individual income tax receipts set-aside for refunds increased from 8.75 percent to 9.75 percent. Individual income taxes receipts including the Refund Fund increased by 7.8 percent.

- **CORPORATE INCOME TAXES:** Corporate income tax revenues increased by \$716 million or 29.1 percent through the fiscal year. Deposits to the Refund Fund from the corporate income taxes were at a lower rate in fiscal year 2013, making the growth in net deposits to the General Funds higher than it would be otherwise. Including the Refund Fund deposits, growth was 23.3 percent.
- **SALES TAX:** Sales tax revenues increased by a modest \$129 million or 1.8 percent.
- **TRANSFERS:** A transfer of \$264 million from the FY13 Backlog Payment Fund was the leading factor in the growth in transfers in this fiscal year. This transfer offset the \$210 million decline in transfers from the Capital Projects Fund into GRF. Lottery Fund transfers were up \$16 million, or 2.5 percent and riverboat gambling transfers increased \$5 million or 1.5 percent through the year. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues increased \$472 million, or 12.8 percent, during fiscal year 2013, as the state paid more Medicaid bills during the year.
- **OTHER RECEIPTS:** As of the end of June, all other state receipts were up \$100 million, or 3.3 percent from the previous fiscal year. Specifically, inheritance tax receipts increased \$58 million and public utility taxes were up \$38 million, while the sum of all other sources increased, which offset the drop from the final payment of \$73 million from the sale of the tenth riverboat license received in fiscal year 2012.

## BASE EXPENDITURES

General Funds base spending increased by \$2.485 billion, or 7.4 percent, through the fourth quarter of fiscal year 2013, supported by strong revenue collections in April. Spending increased by \$1.406 billion in April, decreased \$371 million in May, and decreased \$182 million in June.

- **SOCIAL SERVICES:** The Department of Healthcare and Family Services' spending was down \$764 million or 9.5 percent through the fourth quarter due to a shift of state employee health insurance appropriations to CMS in fiscal year 2013. Vouchers presented by the Department of Human Services were down \$10 million or 0.3 percent through June, and Department of Children and Family Services expenditures were down \$88 million or 10.8 percent after twelve months. Department on Aging vouchers were up \$228 million or 30.8 percent for the year.
- **EDUCATION:** Vouchers presented by the State Board of Education were down \$196 million, or 2.9 percent through June. Appropriations for General State Aid for schools decreased \$161 million in fiscal year 2013. Vouchers presented by higher education agencies, excluding the retirement system, were down \$121 million or 5.8 percent.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$294 million through June and University Retirement System expenditures increased \$584 million. Vouchers from the State Employees Retirement System were up \$145 million.
- **ALL OTHER:** CMS had the largest increase in vouchers presented for payment among the major agencies of \$1.4 billion due to the transfer of state employee health insurance appropriations to this agency. "All other" spending was up due to the payment of \$264 million into the FY 2013 Backlog Payment Fund.
- **TRANSFERS OUT:** Transfers out for twelve months of fiscal year 2013 increased by \$1.119 billion, or 25.9 percent, when compared to last year. Statutory transfers were up primarily due to an overall pay down of some of the backlogged transfers and increased transfers to the Healthcare Provider Relief Fund. This does not include the final repayment of \$133 million from the fiscal year 2011 interfund borrowing and the transfer to the Budget Stabilization Fund.

## WHAT LIES AHEAD

Although the backlog of General Funds bills at the end of the fiscal year was lower than at the end of fiscal year 2012, serious long-term challenges remain.

On June 30th, Illinois had over \$6 billion in unaddressed obligations – even after the additional April income tax revenues. In addition to the nearly \$3.3 billion in unpaid bills at the IOC, there may be as much as \$900 million in additional fiscal year 2013 vouchers arriving in the lapse period, along with approximately \$2 billion in unpaid state employee health insurance bills and Medicaid bills. The focus this fall will be on the payment of remaining fiscal year 2013 obligations, which may ultimately claim more than \$4 billion of fiscal year 2014 revenues as final vouchers are forwarded to IOC.

After Illinois pays those obligations, the outlook for the remainder of fiscal year 2014 is unclear. The office's ability to pay down the backlog further in 2014 will be contingent on the final state spending decisions and the performance of state revenues. Due to the one-time nature of many of the April income tax revenues, overall revenue estimates for fiscal year 2014 are below fiscal year 2013 collections, while expenditures are expected to increase due to increases in pension obligations.

The General Funds fiscal year 2014 spending plan appears to be close to the estimated fiscal year 2014 revenue collections, which means it would be unlikely that the IOC will be able to reduce the backlog and lessen payment delays during the year. Additionally, during the course of the year, payment delays will likely increase from current levels as spending pressures during the first half of the year exceed expected revenues.

While Illinois appears to have made improvements in its overall financial condition during the past year, much of that is attributable to one-time revenue events. Further action will be required before Illinois can regain its fiscal footing, especially looking ahead to the scheduled reduction in income tax rates during fiscal year 2015.

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2012	2013		FY 2012	FY 2013	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 79	\$ 205	\$ 126	\$ 469	\$ 40	\$ (429)	(91.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,356	\$ 1,403	\$ 47	\$ 15,512	\$ 16,538	\$ 1,026	6.6 %
Corporate	400	459	59	2,461	3,177	716	29.1
Total, Income Taxes	1,756	1,862	106	17,973	19,715	1,742	9.7
Sales Taxes	626	659	33	7,226	7,355	129	1.8
Other Sources:							
Public Utility Taxes	63	77	14	995	1,033	38	3.8
Cigarette Taxes	30	29	(1)	354	353	(1)	(0.3)
Inheritance Tax (gross)	21	20	(1)	235	293	58	24.7
Liquor Gallonage Taxes	15	15	0	164	165	1	0.6
Insurance Tax and Fees	64	64	0	345	334	(11)	(3.2)
Corporation Franchise Tax and Fees	12	12	0	192	205	13	6.8
Investment Income	1	2	1	21	20	(1)	(4.8)
Cook County IGT	0	0	0	244	244	0	0.0
Other	36	92	56	501	504	3	0.6
Total, Other Sources	242	311	69	3,051	3,151	100	3.3
Total, Cash Receipts	\$ 2,624	\$ 2,832	\$ 208	\$ 28,250	\$ 30,221	\$ 1,971	7.0 %
Transfers In:							
Lottery Fund	\$ 68	\$ 69	\$ 1	\$ 640	\$ 656	\$ 16	2.5 %
State Gaming Fund	28	33	5	340	345	5	1.5
Other Funds	156	184	28	885	952	67	7.6
Total, Transfers In	\$ 252	\$ 286	\$ 34	\$ 1,865	\$ 1,953	\$ 88	4.7 %
Total, State Sources	\$ 2,876	\$ 3,118	\$ 242	\$ 30,115	\$ 32,174	\$ 2,059	6.8 %
Federal Sources	\$ 589	\$ 147	\$ (442)	\$ 3,682	\$ 4,154	\$ 472	12.8 %
<b>Total, Base Revenues</b>	<b>\$ 3,465</b>	<b>\$ 3,265</b>	<b>\$ (200)</b>	<b>\$ 33,797</b>	<b>\$ 36,328</b>	<b>\$ 2,531</b>	<b>7.5 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,465	\$ 3,265	\$ (200)	\$ 34,072	\$ 36,603	\$ 2,531	7.4 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 759	\$ 449	\$ (310)	\$ 8,081	\$ 7,317	\$ (764)	(9.5) %
State Board of Education	586	760	174	6,730	6,534	(196)	(2.9)
Human Services	223	327	104	3,429	3,419	(10)	(0.3)
Teachers Retirement	209	234	25	2,507	2,801	294	11.7
University Retirement System	41	117	76	714	1,298	584	81.8
All Other Higher Education	34	30	(4)	2,086	1,965	(121)	(5.8)
Corrections	89	87	(2)	1,207	1,157	(50)	(4.1)
State Employees Retirement System	75	87	12	904	1,049	145	16.0
Central Management Services	7	351	344	89	1,484	1,395	1,567.4
Children and Family Services	26	29	3	815	727	(88)	(10.8)
Aging	5	23	18	740	968	228	30.8
State Police	27	23	(4)	275	245	(30)	(10.9)
All Other	130	112	(18)	1,705	1,821	116	6.8
Total	\$ 2,211	\$ 2,629	\$ 418	\$ 29,282	\$ 30,785	\$ 1,503	5.1 %
Regular Transfers Out	312	779	467	4,315	5,434	1,119	25.9
Prior Year Adjustments	(1)	(1)	0	(88)	(21)	67	(76.1)
Vouchers Payable Adjustment	701	(366)	(1,067)	87	(117)	(204)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 3,223</b>	<b>\$ 3,041</b>	<b>\$ (182)</b>	<b>\$ 33,596</b>	<b>\$ 36,081</b>	<b>\$ 2,485</b>	<b>7.4 %</b>
Transfers to Repay Budget Stabilization	275	275	0	550	275	(275)	(50.0)
Transfers to Repay Interfund Borrowing	6	0	(6)	355	133	(222)	(62.5)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,504	3,316	(188)	34,501	36,489	1,988	5.8
AVAILABLE CASH BALANCE, ENDING	\$ 40	\$ 154	\$ 114	\$ 40	\$ 154	\$ 114	285.0 %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2012	2013		FY 2012	FY 2013	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 68	\$ 41	\$ (27)	\$ 7	\$ 16	\$ 9	128.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,257	\$ 1,301	\$ 44	\$ 14,380	\$ 15,331	\$ 951	6.6 %
Corporate	371	425	54	2,281	2,945	664	29.1
Total, Income Taxes	1,628	1,726	98	16,661	18,276	1,615	9.7
Sales Taxes	470	495	25	5,419	5,516	97	1.8
Other Sources:							
Public Utility Taxes	57	69	12	905	939	34	3.8
Cigarette Taxes	18	20	2	240	274	34	14.2
Inheritance Tax (gross)	21	20	(1)	235	293	58	24.7
Liquor Gallonage Taxes	15	15	0	164	165	1	0.6
Insurance Tax and Fees	64	64	0	345	334	(11)	(3.2)
Corporation Franchise Tax and Fees	12	12	0	192	205	13	6.8
Investment Income	1	2	1	21	19	(2)	(9.5)
Cook County IGT	0	0	0	244	244	0	0.0
Other	36	92	56	497	500	3	0.6
Total, Other Sources	224	294	70	2,843	2,973	130	4.6
Total, Cash Receipts	\$ 2,322	\$ 2,515	\$ 193	\$ 24,923	\$ 26,765	\$ 1,842	7.4 %
Transfers In	156	184	28	885	952	67	7.6
Total, State Sources	\$ 2,478	\$ 2,699	\$ 221	\$ 25,808	\$ 27,717	\$ 1,909	7.4 %
Federal Sources	\$ 589	\$ 147	\$ (442)	\$ 3,682	\$ 4,154	\$ 472	12.8 %
<b>Total, Base Revenues</b>	<b>\$ 3,067</b>	<b>\$ 2,846</b>	<b>\$ (221)</b>	<b>\$ 29,490</b>	<b>\$ 31,871</b>	<b>\$ 2,381</b>	<b>8.1 %</b>
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,067	\$ 2,846	\$ (221)	\$ 29,765	\$ 32,146	\$ 2,381	8.0 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 759	\$ 449	(310)	\$ 8,081	7,317	(764)	(9.5)
State Board of Education	586	377	(209)	2,592	2,248	(344)	(13.3)
Human Services	223	327	104	3,429	3,419	(10)	(0.3)
Higher Education	5	4	(1)	492	506	14	2.8
Corrections	89	87	(2)	1,207	1,157	(50)	(4.1)
State Employees Retirement System	75	87	12	904	1,049	145	16.0
Central Management Services	7	351	344	89	1,484	1,395	1,567.4
Children and Family Services	26	29	3	815	727	(88)	(10.8)
Aging	5	23	18	740	968	228	30.8
State Police	27	23	(4)	275	245	(30)	(10.9)
All Other	133	115	(18)	1,739	1,855	116	6.7
Total	\$ 1,935	\$ 1,872	\$ (63)	\$ 20,363	\$ 20,975	\$ 612	3.0 %
Regular Transfers Out	312	1,189	877	7,652	10,618	2,966	38.8
Prior Year Adjustments	(1)	(1)	0	(81)	(10)	71	(87.7)
Vouchers Payable Adjustment	592	(483)	(1,075)	917	136	(781)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,838</b>	<b>\$ 2,577</b>	<b>\$ (261)</b>	<b>\$ 28,851</b>	<b>\$ 31,719</b>	<b>\$ 2,868</b>	<b>9.9 %</b>
Transfers to Repay Budget Stabilization	275	275	0	550	275	(275)	(50.0)
Transfers to Repay Interfund Borrowing	6	0	(6)	355	133	(222)	(62.5)
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,119	2,852	(267)	29,756	32,127	2,371	8.0
AVAILABLE CASH BALANCE, ENDING	\$ 16	\$ 35	\$ 19	\$ 16	\$ 35	\$ 19	118.8 %