DANIEL W. HYNES
COMPTROLLER
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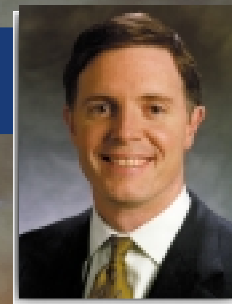
Comptroller Daniel W. Hynes
FEBRUARY/MARCH 2001 ISSUE



Fiscal Focus

Planning For Illinois' Economic Future

It's not right that Illinois' families pay the price when State government fails to plan financially. Illinois State government should make a covenant with its citizens to guarantee the level of state services that they have come to expect - without taking more out of their pockets. To do this, Illinois must be in a position of financial stability.

— Daniel W. Hynes
State Comptroller

People want to be in a position to be able to pay their bills, even in the worst of times. That is financial stability. It is one reason why families strive to save money. Unfortunately, the State of Illinois has not saved, and Illinoisans have paid the price.

COVER STORY continued, page 7

FROM THE COMPTROLLER

Dear Readers:

We all want to be in a position to be able to pay our bills even in the worst of times. That is financial stability. It is one reason most of us save money. Unfortunately, the State of Illinois has not saved and remains financially in debt. For the second year in a row, Illinois' financial position has deteriorated. Using generally accepted accounting principles, Illinois' general funds deficit has increased from negative $213 million on June 30, 1998 to negative $315 million on June 30, 2000.

I have proposed a plan for structural changes to improve Illinois' finances. My "Agenda for Financial Stability in Illinois" includes recommendations for controlled growth in state spending, saving for a rainy day, and paying down our debts. The Agenda also calls for real truth-in-budgeting of revenues and expenditures to present a truer financial picture of our state finances to our citizens and decision-makers alike.

My office is pursuing other statutory changes this year. Senate Bill 1056 and House Bill 2283 include numerous tools intended to assist the Comptroller's Office in the oversight of businesses involved with pre-arranged sales of funeral, burial, or cemetery merchandise and/or services. The bills would also allow local governments, under limited circumstances, to enter and cleanup cemetery properties within their jurisdictions. And the Comptroller would be authorized to administer a voluntary cemetery cleanup program and given discretion to issue grants to local governments, school districts and not-for-profit associations to assist in the cleanup efforts.

House Bill 1883 contains provisions to help local governments meet their financial reporting requirements with the Local Government Division of the Comptroller's Office. The bill would eliminate reporting requirements for drainage districts that have no financial activity, eliminate reporting for Public Housing Authorities that report to the federal government, and provide this Office with an option to decline a full audit when deemed prohibitively expensive to taxpayers.

As is our custom, I encourage you to answer the Fiscal Forum question for this month, and to continue to let us know what you think. Our web site is www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
Comptroller

Fiscal $marts

A Glance at the Illinois Prompt Payment Act

Few would disagree with the argument that vendors who deliver goods or services to the state are a critical element of state government operations. Such vendors include pharmacists, physicians, road builders, food distributors, and many other commercial providers. It is in the state's best interests to pay vendors for their goods and services on a timely basis because unjustified delays may eventually discourage vendors from doing business with, and may ultimately increase costs to, state government. When Illinois shows a commitment to pay its bills on time, more vendors are more likely to compete for state business. This will help enhance competition among vendors, and should help keep costs in check over the long run.

The Prompt Payment Act sets standards for the payment of bills incurred by state agencies within specified periods of time and requires state agencies to pay interest penalties for late payments. The intent is to make payments as expeditiously as possible with proper and reasonable oversight to ensure state funds are spent in a prudent and responsible manner.

Current provisions of the Prompt Payment Act are similar to those originally enacted more than 25 years ago. A vendor is entitled to late interest penalties for payments made after 60 days from the date of approval by the head of the contracting agency.

It is noteworthy that changes to the Act over the years occurred when the state faced difficulties in paying its bills. For the most part, these changes were aimed to favor vendors. However, vendors of Medicaid

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Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest and in compliance with state statutes.

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HOW Illinois Stacks Up

Illinois One of Three States with Negative GAAP Balances

Illinois is one of just three states that had negative GAAP balances in fiscal year 1999. The negative $302.6 million balance placed Illinois forty-eighth in the nation, followed only by Wisconsin and Alaska. Florida had the largest GAAP balance with $3,527.6 million, while Indiana had a balance of $3,440.6 million and Georgia's balance was $3,394.6 million.

States with low, positive GAAP balances included North Dakota with $87.9 million, Alabama with $90.9 million, and South Dakota with $107.0 million. Even with these low amounts, the average GAAP balance for all 50 states was $1.064 billion.

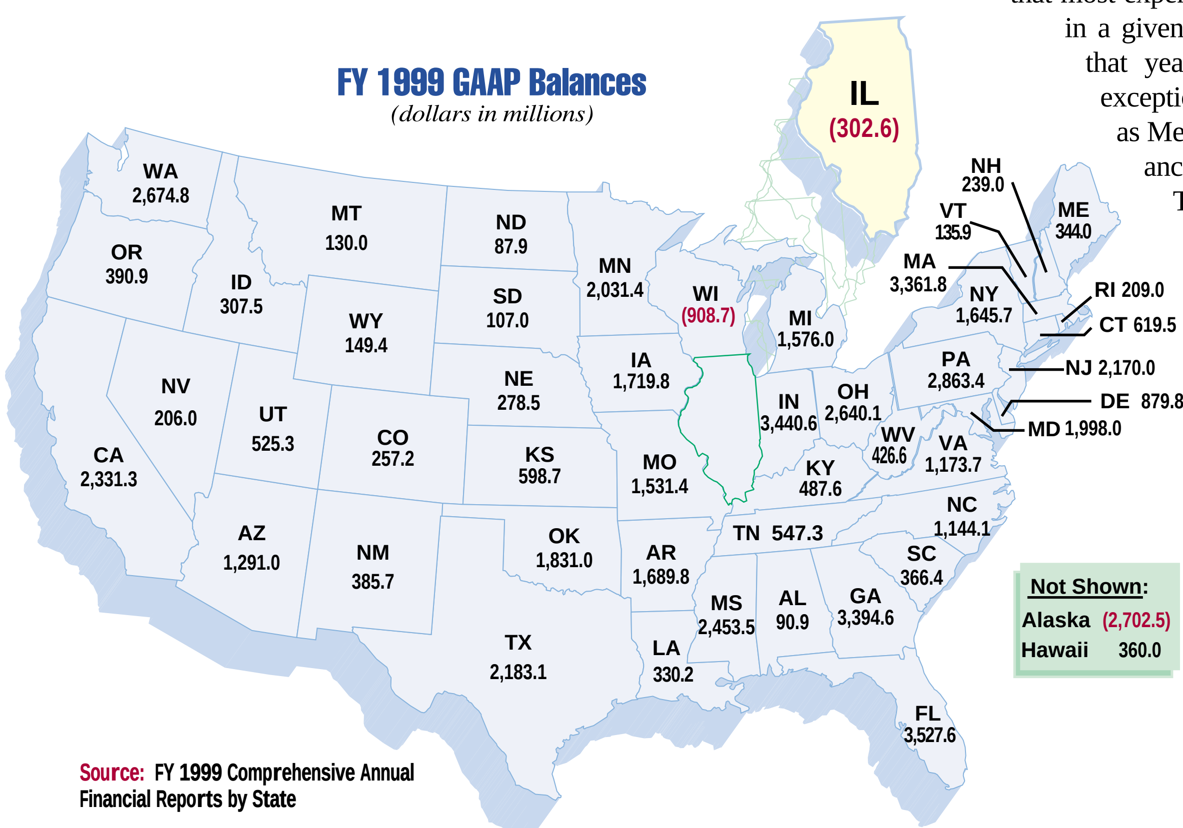
Indiana was not the only neighboring state with a large, positive GAAP balance. Minnesota's balance was $2,031.4 million, Iowa's balance was $1,719.8 million, and Michigan and Missouri followed with GAAP balances of $1,576.0 million and $1,531.4 million, respectively.

Another measure of the fiscal health of a state is the size of its GAAP balance relative to general fund appropriations. In some states, the GAAP balance as a percentage of general fund appropriations is as large as 25 to 35 percent. Mississippi had the largest percentage (68%), followed by Arkansas (48%), Delaware (36%), and Iowa (35%). At the low end were states like Connecticut, Louisiana, and New York that had ratios of 5 percent.

Illinois' GAAP Deficit

GAAP stands for Generally Accepted Accounting Principles where revenues and expenditures are charged to the year in which they are earned or obligated. Thus, when deferred liabilities from prior years are paid, the expenditures are charged to the current year, and not to the year in which the liabilities were incurred. Although Section 25 of the State Finance Act requires that most expenditures for liabilities incurred in a given fiscal year be paid for from that year's appropriations, there are exceptions for certain programs such as Medicaid and group health insurance (see Focus on Spending). Therefore, deferred liabilities for some programs in Illinois affect future year appropriations, and the larger the deficit in the GAAP balance grows, the more the State will have to pay in future years to retire those deferred liabilities.

After five years of improvement, Illinois' GAAP balance fell in fiscal year 1999, dropping from a negative $213.1 million in fiscal year 1998 to a negative $302.6 million. [Note: The GAAP balance fell again in fiscal year 2000 to a negative $315 million.] ■



FOCUS On Revenue

Revenue Estimating Council and Binding Estimates

Illinois has a unique approach to estimating revenues for budget preparation. Currently, there are two independent agencies that estimate revenues in advance of a new budget year. The Bureau of the Budget, under the direct supervision of the Governor, and the Illinois Economic and Fiscal Commission, under the direct supervision of the General Assembly, prepare separate estimates that can either be used in crafting a budget or ignored.

The Comptroller has recommended that a Revenue Estimating Council (REC) be created. The REC would consist of the Director of the Bureau of the Budget, the Director of the Economic and Fiscal Commission, and the Comptroller or their designees. In suggesting the participants in the new REC, a balance between the agencies most responsible for the fiscal operation of the State were chosen. The new REC would develop a revenue estimate for the coming budget year in advance of the Governor's budget. That estimate would be updated in mid-April and would then be binding on the budget for the next year.

This is not a new concept. Twenty-three other states have consensus forecasts from which to budget. States like New York, Maryland, Kansas, and Florida all prepare consensus revenue forecasts. Looking at Illinois' neighbors, all states have consensus forecasting except Wisconsin.

In addition, more than half the states (30) have revenue estimates that are binding on the budget. Large states like Florida, Michigan, New York, Pennsylvania, and Texas all follow this public approach to budget development.

The problem in estimating revenues becomes even more acute when the budget is tight. When the budget is tight and reductions in the growth of important programs like education, assistance for senior citizens, and medical care for children are possible, debate on the revenues intensifies and distrust abounds. Many times revenues used to budget are not disclosed publicly until the budget has been passed.

Budget Check-ups

In the past, problems with the budget have not usually been made public until a crisis is imminent. At that point, the flexibility of the Governor and the General Assembly to react is severely limited resulting in drastic measures to keep the budget balanced. To avoid this crisis management of the budget, quarterly check-ups of revenues and expenditures should take place to determine if there are any difficulties on the horizon.

The REC would conduct quarterly budget reviews to analyze the trends in revenues and expenditures. During these reviews, the REC would be able to determine if revenues and expenditures are over- or under-performing the original estimates. If the deviation is large, the REC would immediately notify the Governor and the leaders of the General Assembly of the potential problems with the current budget.

Each of these steps would ensure a more public state budgeting process that can only serve to make the budget process more accountable. It is important that Illinois take these steps in the right direction, the direction towards stability and responsibility. ■

Proposed Revenue Estimating Council

Membership

- Director, Economic and Fiscal Commission
- Director, Bureau of the Budget
- Comptroller

Functions

- Develop revenue estimate before Governor's budget
- Update revenue estimate by mid-April (binding)
- Conduct quarterly reviews of revenues and expenditures
- Notify Governor and legislative leaders of major deviations

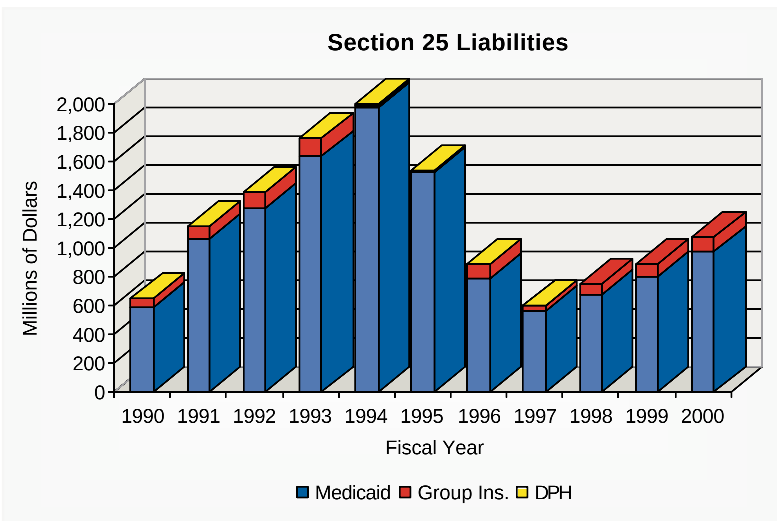
FOCUS On Spending

Truth-in-Spending

Section 25 of the State Finance Act is often referred to when discussing deficits. This has evolved because of the fiscal year limitation exceptions enumerated under Section 25. This section of the statutes requires that all bills be paid in the fiscal year in which they are incurred and allows for a 2-month lapse period for liabilities incurred before June 30. However, the following categories of payments are exceptions that can be made without regard to the fiscal year limitation:

- Tuition reimbursement claims under Section 14-7.03 or 18-3 of the School Code;
- Medical payments for the Department of Veterans' Affairs;
- Medical payments made by the Department of Public Aid (DPA);
- Child care payments made by the Department of Human Services (DHS);
- Group Health insurance payments made by the Department of Central Management Services (CMS);
- Payments from the Immigration Reform and Control Fund;
- Payments made by the Department of Public Health and the Department of Human Services for grants for medical care for persons suffering from chronic renal disease, hemophilia, rape victims, and premature and high-mortality risk infants and their mothers; and,
- Payments for grants for supplemental food supplies under the U.S. Department of Agriculture's Women, Infants and Children Nutrition Program (WIC).

For the most part, these exceptions are only used when needed by the administering agency. However, there have been abuses in the past in the area of medical payments (Medicaid) made by DPA and group health insurance payments made by CMS. In fact, the accrued liability for Medicaid payments climbed to almost $2 billion in fiscal year 1994.



Part of the problem is that payments for bills that are actually in house can be delayed indefinitely by these state agencies based on the Section 25 exception. Last year, for example, the Department of Public Aid deferred over $325 million in bills that were on hand by the end of fiscal year 2000. This practice makes budgeting unreliable because it hides the true cost of the Department of Public Aid's medical spending for the year. Moreover, it pushes the State's unpaid bills into the future instead of addressing them now.

To prevent these practices, the State should tighten these exceptions to the finance laws to require that such bills be paid when they are received and not held for future payment. Further, to monitor the changes in the accrued liabilities that are being carried into future years, a separate line-item in the budget should be established for any bills left over from prior fiscal years. This would allow decision-makers to monitor the growth of accrued liabilities and take appropriate action when necessary to reduce the growth.

The State needs to begin to address the potential time bomb of accrued liabilities to be paid under Section 25. Liabilities under this section have grown to over $1.0 billion in fiscal year 2000, the first time since 1995 that they have totaled over $1.0 billion. In addition, in Governor Ryan's proposed budget, another $60 million will be added to the deferred payments in fiscal year 2002. The Governor's budget is based on no growth in the Medicaid line-items while the Congressional Budget Office has projected 9.1% growth. Although some cuts have been suggested by the Governor's office, using the CBO projection, the budget still under-appropriates Medicaid by another $277 million, which could result in additional deferrals.

Illinois needs to identify and stop the growth of these deferred payments to avoid the fiscal problems confronted by the State in the early 1990s. ■

Fiscal Smarts concluded

programs were given mixed messages from the legislature throughout the 1990s when late interest penalties were excluded and later included under the Act on three separate occasions. Another significant change during the economic downturn of the early 1980s was an increase in the interest penalty rate from 1% to 1.5% per month in 1983 which increased again to 2% per month a year later. This rate remained in effective until the state faced cash flow problems and spending deficits in the early 1990s.

Faced with a predicament from which there was no easy resolution, the legislature lowered the rate back down to 1% per month to reduce the amount of penalties state agencies were required to pay. This change was made in the early 1990s at a time when payment cycles were stretched to their limit. In an effort to satisfy vendors after taking a lower interest penalty rate, the legislature included provisions in the Act that require state agencies to automatically pay interest penalties owed over $50. This gave some vendors comfort that the state would keep track of interest penalties owed. However, after nine years since its enactment, it is not certain whether all state agencies have procedures in place to adequately monitor compliance with this provision.

With heightened awareness of the state's cash flow levels and the potential effect on payment cycles, it may be time to reexamine current practices regarding how vendor payments are processed in accordance with the Prompt Payment Act. A healthy review may help shed light on possible shortcomings of the Act and help show if state government is prepared to meet the requirements of the Act if the state is forced into protracted delays once again. There are many unanswered questions that need to be addressed. Are state agencies prepared to automatically pay the late interest penalties owed? Are vendors able to pin-point the "starting point" on invoices so they can verify whether or not interest penalties are owed? Should the prompt payment clock be allowed to stop if vendors cannot correct minor invoice errors within a few days? Are mechanisms in place to identify how much the state pays in prompt payment penalties?

If there are no satisfactory answers to these questions, it may be time to give thoughtful review in amending the Prompt Payment Act to handle the problems of the future without adversely harming the vendors of the state. The Comptroller is seeking input from interested vendors and will likely propose legislation later this spring session reflecting that feedback. ■

When Does The Prompt Payment Clock Start Ticking?

The Prompt Payment Act requires state agencies to pay an interest penalty for payments made more than 60 days after the agency head approves the request for payment. When the agency head approves the payment, the "date of approval" starts the 60-day clock ticking.

However, another 30 days is provided by rule before the 60-day timeframe to allow state agencies to process the request for payment at the agency level. According to rule, this 30-day timeframe starts when the agency determines the invoice to be in proper physical form with all the required and correct information.

Therefore, even though an invoice has been submitted by a vendor, the actual start date does not begin until the goods or services are completely delivered, and the state agency has determined that the invoice is complete and correct.

Fiscal Forum

Last month's question concerned agriculture and a product that utilizes Illinois corn.

Should the State of Illinois encourage greater use of ethanol by increasing its tax incentive to purchasers?

YES	**74%**
NO	**26%**

This month's question involves Illinois' current fiscal condition and the Comptroller's proposal to pay down the State's debts without raising taxes. Which debts should be paid off first?

1. Deferred liabilities (e.g., Medicaid bills)?

2. Unfunded liabilities of the State retirement (pension) systems?

3. General obligation bonded indebtedness?

To respond to this question, simply log onto the Comptroller's Web site at www.ioc.state.il.us.

State government's income depends on the income of its taxpayers. When taxpayers' earnings slow in an economic recession, the state's major sources of revenue, the income and sales taxes, slow also. Families try to save money to get through those times. Illinois government, however, does not.

Over the last two decades, Illinois has been able to sustain and expand the state budget and state services in most years. On the average, state spending has grown by over 5% a year since 1980. But during those good years, the State of Illinois initiated no savings plan. Money was not put away for protection in case of bad times in the future. So when the economy went into recession and the money coming into state government stagnated - as it did in the early 1980s and again in the early 1990s - Illinois was not prepared.

"Will Our Families Again Pay the Price?"

The Economic Consequences for Illinois Citizens when State Government Fails to Plan for Financial Stability:

- Tax Increases
- Cuts in State Services
- Long Delays in Paying Bills Owed to Vendors
- Layoffs and Personnel Reductions
- Interest Cost of Short-term Borrowing
- Borrowing from Employees' Pensions

As a result, state decision-makers were forced to prescribe some unpleasant medicine that had adverse side effects for taxpayers and families. Already financially strapped by economic circumstances, taxpayers saw not only reductions in the services provided by the state, but also increases in their tax bills. Companies who did business with the state had to wait months to be paid - some had to borrow money until the state paid its bills. Others actually went out of business. State employees suffered too. Some lost their jobs, while those employees who stayed picked up the workload. The future of state employees' pensions was threatened when state government effectively borrowed from their pension funds. In the early 1990s, the State of Illinois also borrowed money on the short-term market just to make its payroll every month, racking up $100 million in interest charges along the way.

The Illinois Deficit

Despite nearly a decade of unprecedented economic growth, Illinois is still not prepared to ride out the next recession without taking the same unpleasant medicine. As a matter of fact - despite what has been said about how much money Illinois has in the bank - Illinois State government operates at a deficit in its main funds. Illinois has had a deficit since 1985. Currently, the deficit stands at $315 million.

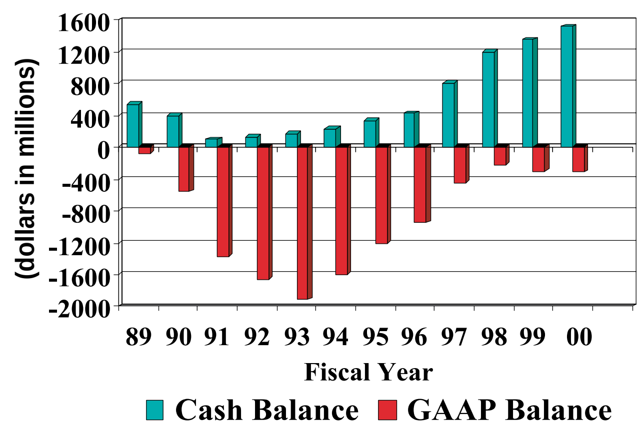
The Illinois Deficit ($ in millions)

Fiscal Year	June 30 Cash Balance	June 30 GAAP Balance
1993	$ 172	-$ 1,916
1994	$ 230	-$ 1,595
1995	$ 331	-$ 1,204
1996	$ 426	-$ 952
1997	$ 806	-$ 443
1998	$ 1,202	-$ 213
1999	$ 1,351	-$ 303
2000	$ 1,517	-$ 315

Most observers do not see the deficit because they look at the wrong yardstick when measuring the state's finances. State decision-makers and others point to how much money is in the bank when the books are closed to end the fiscal year on the last day of June. Last June 30th, for example, at the end of state fiscal year 2000, Illinois had $1.5 billion dollars in the bank.

But as anyone who uses a credit card knows, to get the true picture, one needs to look not only at how much money is in the bank, but also how much is owed in bills. Last June 30, the State of Illinois carried $1.5 billion in the general funds into the new fiscal year. But as professional accountants and bond-rating agencies see it (according to what is called Generally Accepted Accounting Principles or GAAP), Illinois had $315 million more in bills than it had in resources. The Illinois deficit has improved since its low-point in fiscal year 1993, but the deficit has begun to grow again in the last two years. This trend threatens to repeat what occurred in the late 1980s and early 1990s.

Illinois' Deficit is Growing Again



This chart shows that despite growing cash balances, the State's fiscal condition is actually getting worse.

Illinois still has no savings plan to guard against a rainy day. Should another recession occur in the near future, Illinois will have to take some of the same steps that were taken in the early 1980s and 1990s - and taxpayers and families will again pay the price.

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Other Illinois Debts

In addition, Illinois has also incurred other, long-term debts that drain general funds that could be used for state programs or to eradicate the deficit. Most significant is the unfunded pension liability. Because state payments to its employees' pension funds were suspended during the recessionary years of the 1980s, Illinois' unfunded pension liability grew to over $16 billion. Now, in order to restore those funds to a position of solvency, state decision-makers are saddled with annual catch-up payments ranging from $1.4 billion to $2.1 billion over the next five years.

AN AGENDA FOR FINANCIAL STABILITY IN ILLINOIS

What should be done? By committing to financial stability, Illinois State government can make a covenant with its residents to continue services to them without raising taxes. What follows is a path to financial stability.

Controlled Growth in State Spending

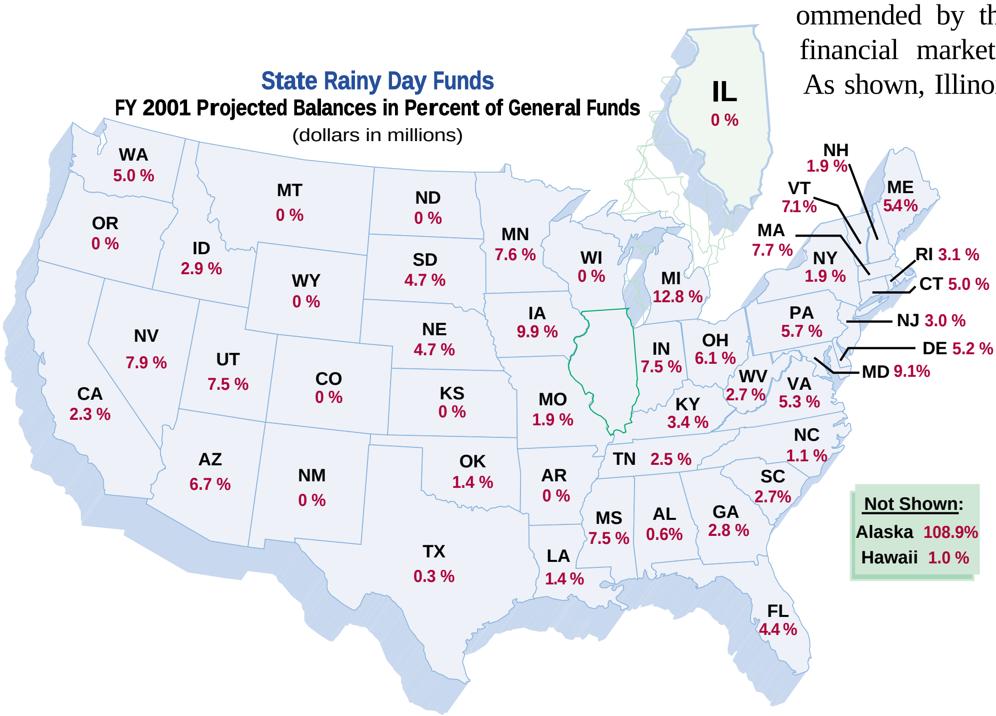
For working families planning their future, saving comes first - whether it's for their children's education, their own retirement or for a rainy day. When they can, they earmark a portion of their income each month for savings - then decide how much they can spend. Just like those families, Illinois should make it a priority to set aside funds for a rainy day - before allocating funds for spending.

Each year that general funds revenues grow by more than 4%, state government should earmark 1% of those available revenues for the state's savings account, the Rainy Day Fund, that was established last year. This plan still affords decision-makers considerable growth in spending to address inflation and new spending demands.

Saving for a Rainy Day

Financial planners advise families to maintain a savings account equal to a certain percentage of their income to guard against unforeseen circumstances, such as a disability, that might result in a loss of income. Likewise, Illinois should, as other state governments have done, accumulate savings for times when its income wanes.

Illinois should set a modest target to accumulate a Rainy Day Fund of 4% of its annual general funds revenues, as recommended by the financial markets. As shown, Illinois ranks at the bottom in saving for a rainy day. A savings plan can be started with the transfer of an estimated $180 million in tobacco settlement funds into the Rainy Day Fund on July 1, 2001. Then, by immediately beginning to set aside 1% of annual revenues, the 4% target can be reached by fiscal year 2006.



At the urging of the Comptroller's Office, Illinois took the initial step last year of setting up a Rainy Day Fund. Now, funds need to be invested in it and rules need to be established for its use. Savings should not be depleted for routine spending purposes. Savings should be used only if major financial problems threaten state services. If the General Assembly is in session, it could make the necessary appropriations from the Rainy Day Fund. When it is not in session, the Governor could allocate Rainy Day funds with the agreement of the President of the Senate and the Speaker of the House.

By achieving financial stability, Illinois can help taxpayers and families maintain their financial strength by reassuring them that state government will not take more from them when they can least afford it. ■

Agenda for Financial Stability in Illinois

- **Controlled Growth in State Spending.**
  - Hold spending to 99% of estimated revenue
  - Allow reasonable growth for inflation and new initiatives
  - Set aside 1% savings for Rainy Day Fund
- **Saving for a Rainy Day**
  - Improved Budget Stabilization Fund (Rainy Day Fund)
  - Establish permanent funding stream = 1% of estimated revenues
  - Provide mechanism for use of fund during fiscal difficulties
  - Cap fund at 4% of estimated revenues, excess for debt reduction
- **Paying Down Our Debts**
  - After Rainy Day Fund reaches cap, 1% of estimated revenues to Early Debt Retirement Fund
  - Pay off deferred liabilities on-hand, e.g. deferred Medicaid bills
  - Pay down unfunded liability of State retirement systems
  - When cost effective, pay down bonded indebtedness
- **Truth-in-Budgeting**
  - Truth-in-Revenue: Create Revenue Estimating Council to certify revenues for budget
  - Quarterly budget check-ups
  - Truth-in-Spending: Pay bills as they come in rather than pushing them into future years

Paying Down State Debts

After reaching the savings target for the Rainy Day Fund, fiscal discipline should not be abandoned. The State of Illinois should continue to save 1% of its revenues and use them for debt reduction. Overflow funds from the Rainy Day Fund should be deposited into an Early Debt Retirement Fund to reduce the long-term debts that also drain the state's general funds. These debts include deferred liabilities under Section 25 of the State Finance Act (which stood at $1.1 billion last June 30), unfunded pension liability of $15.6 billion, and $13.7 billion in bonded indebtedness that costs Illinois over $270 million a year in interest payments alone.

Truth-in-Budgeting

It has been said that "smoke and mirrors" or financial gimmicks have been used to make Illinois' budget appear to be balanced. How can that be corrected? How can it be assured that state government follows the plan to financial stability? Two steps should be taken.

1) Truth-in-Revenue. Unlike many other states, Illinois' budget is not based on an official revenue estimate. The Governor presents revenue estimates in his proposed budget, and the legislature's revenue estimating arm, the Illinois Economic and Fiscal Commission, offers its own. Both revise the estimates throughout the budget process so that, when the budget is finalized, few people truly know the estimated revenues on which the budget was "balanced." (See *Focus on Revenue*).

Illinois should remedy this situation by establishing a Revenue Estimating Council to clear up confusion about revenue and to certify the following for each fiscal year's budget: 1) an official revenue estimate; 2) the amount available for spending; 3) the amount to be deposited into the Rainy Day Fund; and 4) any amount available for transfer to the Early Debt Retirement Fund. The Council should also monitor budget execution on a quarterly basis.

The Council should consist of the Director of the Governor's Bureau of the Budget, the State Comptroller, and the Director of the Illinois Economic and Fiscal Commission. This way, the budget will benefit from different viewpoints from different branches of government.

Saving for A Rainy Day

- Establish a permanent funding stream = 1% of estimated revenues
- Provide mechanism for use of fund during fiscal difficulties
- Cap fund at 4% of estimated revenues, in line with financial market recommendations
- Use Excess for Debt Reduction

2) Truth-in-Spending. Since the Illinois Constitution requires a balanced budget, why is there a deficit? The answer is that Illinois has its own form of credit card that allows it to charge now and pay later. And, like some people, the state uses its credit card to build up debts it cannot pay. (See *Focus on Spending*).

Illinois' charge account is Section 25 of the State Finance Act. Normally, the state must pay the bills for all purchases out of the budget for the year the purchases were made. That way, state agencies can't buy now and pay later. However, Section 25 makes legitimate exceptions to that rule for certain bills, like medical bills, that are sometimes delayed (while other insurance coverage is reviewed, for example).

The problem arises when these exceptions are used improperly to get around budget limitations. State agencies can use the exception to defer bills into the next fiscal year even though they may have them in hand. That way they do not have to ask the legislature for more money. Last year, for example, the Department of Public Aid deferred over $325 million in bills that should have been paid from last year's budget into the current year's budget. This practice makes budgeting unreliable because it hides the true cost of an agency's spending for the year. Moreover, it pushes problems into the future instead of confronting them now.

To prevent this practice, the exceptions in state finance laws should be tightened to require that these bills be paid when they are received and not held over for the next budget. Furthermore, a separate account (or line-item) in the budget should be established to pay for any bills legitimately left over from prior fiscal

Achieving Financial Stability
($ in Millions)

Fiscal Year	Estimated Revenues*	% Change in Revenues	Estimated 1% Transfer to RDF**	Cumulative Balance in RDF***	Real RDF Balance as a % of Revenues	Cumulative Balance Early Debt Retirement Fund	Allowable Spending	Spending % Increase
2001	$24,060		$180	$180	0.7%			
2002	$25,650	6.6%	$257	$437	1.7%		$25,393	4.4%
2003	$26,876	4.8%	$269	$706	2.6%		$26,607	4.8%
2004	$27,440	2.1%	$0	$706	2.6%		$27,440	3.1%
2005	$28,717	4.7%	$287	$993	3.5%		$28,430	3.6%
2006	$29,988	4.4%	$300	$1,200	4.0%	$93	$29,688	4.4%
2007	$31,307	4.4%	$313	$1,252	4.0%	$354	$30,994	4.4%

*Estimated revenues for FY 2002-2005 based on IEFC 5-year outlook. Late recession forecast assumes a recession in 2004 and a recovery in 2005. FY 2006-2007 amounts based on the 4-year average growth in the IEFC estimates.

**FY 2001 Rainy Day Fund transfer is the current estimated statutory transfer from the Tobacco Settlement Fund.

***Assumes that the Rainy Day Fund does not have to be used.

COVER STORY continued, page 10

years. This would allow the growth of deferred liabilities to be monitored.

Illinois Should Act Now

Action should be taken now to secure the State of Illinois' financial future. State government should not shift the burden of its financial problems to taxpayers and families when they are already struggling financially. This four-step path to financial stability will lead to a better economic future for all of Illinois' taxpayers and families. It can be done with minimal sacrifice if action is taken soon. If state government fails to act, it is certain that another fiscal crisis will arise sometime in the future and decision-makers will be forced into unpleasant choices - all of which would be unfair to the people of Illinois. ■

Debt Reduction

When Rainy Day Fund Reaches Cap, 1% Deposited into Early Debt Retirement Fund to Pay Down the State's Debts.

- Pay off deferred liabilities on-hand, e.g. deferred Medicaid bills
- Pay down unfunded liability of State retirement systems
- When cost effective, pay down bonded indebtedness

Truth-in-Budgeting

- Truth-in-Revenue: Create revenue estimating council from existing entities to certify revenues for budget
- Quarterly budget check-ups
- Truth-in-Spending: Pay bills as they come in, rather than pushing them into future years

New Reports Available

Two reports concerning the State's finances are now available.

1) *Receivables Report*, calendar year ended December 31, 2000, highlights amounts due to the State.

2) Fiscal Year 2000 *Tax Expenditure Report* - provides both detailed and summary information on tax preferences that reduce the amount of tax revenue to the State.

Copies of the Receivables Report are available by calling (217) 782-2053.
Copies of the Tax Expenditure Report are available by calling (217) 782-3615.
Or reports can be accessed on the Comptroller's web site at:

www.ioc.state.il.us

CEMETERY Care Corner

Cemetery Care Reform Efforts Continue

Renewing his commitment to addressing consumer concerns with the pre-need cemetery sales industry and the condition of cemeteries throughout Illinois, Comptroller Hynes introduced comprehensive legislation for consideration by the 92nd General Assembly. Identical bills— Senate Bill 1056 and House Bill 2283 — are a redraft of the Comptroller's reform legislation from last session. The previous effort received bipartisan support but fell short of getting a committee hearing in the Senate. The Comptroller's current initiatives reflect consideration of the regulated communities' criticisms of the earlier proposal while continuing to address abandoned cemeteries, enhance consumer protection for purchasers of pre-need funeral and burial merchandise and services, and establish consumer friendly responsibilities for privately operated cemeteries.

Pre-need Sales Industry Oversight

Senate Bill 1056 and House Bill 2283 include numerous tools intended to assist the Office of the Comptroller in oversight of the pre-need sales industry. Pre-need sales refer to the pre-arranged sale of funeral, burial, or cemetery merchandise and/or services. The Office of the Comptroller licenses sellers of pre-need services or merchandise, overseeing the trust funds that are established to ensure that funds are available to supply the previously contracted for merchandise or service at the time of need. The bills clarify the pre-need sales licensee's existing record keeping requirements. The licensee must retain current books, accounts, and records at the licensed location or as otherwise agreed by the Comptroller. The licensee shall update the books, accounts, and records no less than monthly. The books, accounts, and records shall be accessible upon demand of the Comptroller. The bill further strengthens the grounds under which the Comptroller may deny, suspend, or revoke a license.

Pre-need Sales Consumer Protections

The bills include many of the consumer protections contained in the previous legislation such as language that clarifies the relationship and responsibilities of those selling a pre-need contract. Sellers of pre-need cemetery services are required to provide to consumers a booklet informing them of their rights under pre-need sales contracts. Funeral directors are required to distribute a similar book under current law. The contents of pre-need sales contracts are required to specify the name and address of: the seller, the seller's parent company, the provider, the purchaser, and the beneficiary of the service or merchandise; the type and price of the merchandise, services, or spaces to be provided; and any penalties to be incurred by the purchaser for failure to make payments or for cancellation of the contract.

Cemetery Conditions

Senate Bill 1056 and House Bill 2283 also strive to address the issue of unkempt cemeteries. First, the bills permit local governments temporary access to abandoned cemeteries for clean-up purposes with property owner permission or after attempts to locate owners have been exhausted. There are several thousand cemeteries throughout Illinois that remain unkempt, often due to the absence of a responsible caretaker and/or inadequate resources. Local governments are reluctant to enter the properties, because of concerns about infringing on property rights. This legislation addresses those concerns, allowing access under limited circumstances, so that the local governments may enter and cleanup cemetery properties within their jurisdictions.

Second, the bills authorize the Comptroller to administer a voluntary cleanup program to further aid in the improvement of cemetery conditions throughout the State. The Comptroller's proposed authority would include the discretion to issue grants to local governments, school districts and not-for-profit associations to assist in the cleanup efforts.

The third component of the Comptroller's proposal addresses the maintenance of privately operated cemeteries. The bills establish a duty on the part of such cemeteries to reasonably maintain the cemetery grounds given consideration for the weather conditions, the climate, and the season.

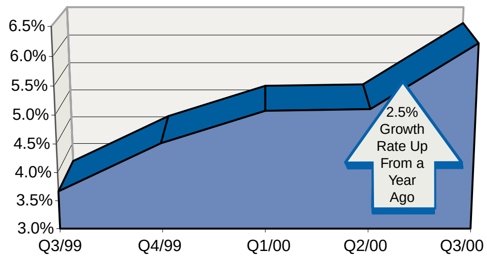
Cemetery Consumer Protections

The bills also enhance the Comptroller's oversight of privately operated cemeteries by establishing minimum operational responsibilities and improving the existing regulatory scheme for privately operated cemeteries that entrust funds for the care of a cemetery. The responsibilities include the duties to: (1) reasonably maintain the cemetery; (2) ensure the availability of information regarding rules, regulations, charges, and prices; (3) survey and map the cemetery land; (4) keep burial records; (4) provide reasonable access to the cemetery; and (5) make burial records reasonably available to the public, including copies for the public upon payment of reasonable copying costs.

Senate Bill 1056 and House Bill 2283 are currently pending in their respective houses. Hearing on one or both of the bills is anticipated to occur during the month of March. ■

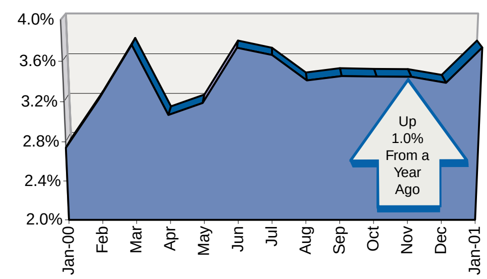
Illinois Stats: **Economic and Financial**

Illinois Personal Income
Change From Prior Year (Reported Quarterly)

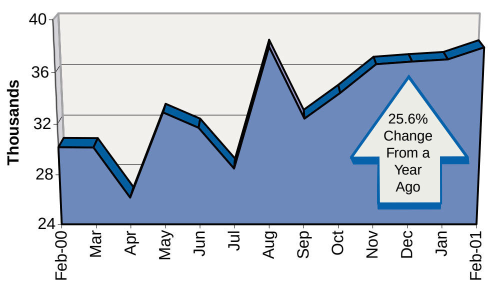


The January Illinois unemployment rate equaled 4.8%, the forty-eighth consecutive month this rate has been below 5.0%. The January Illinois rate was 0.6% greater than the January national rate, 0.1% greater than the December Illinois rate, and 0.6% greater than its prior year level. In January, the national inflation rate was 3.7%. Finally, the February Chicago Purchasing Managers Index (43.2) was an indicator of declining economic activity for the fifth consecutive month. Any index below 50 indicates more reports of decreasing economic activity rather than increasing activity from purchasing managers.

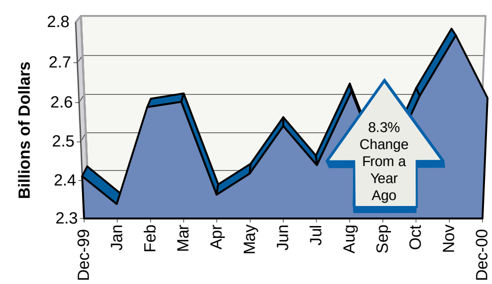
Inflation Rate
Change From Prior Year



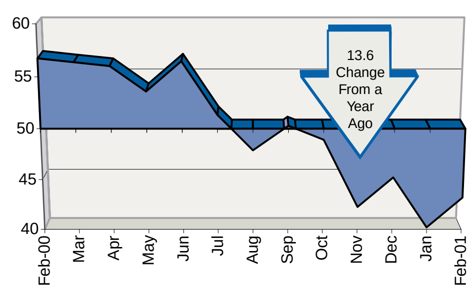
New Claims Unemployment Insurance



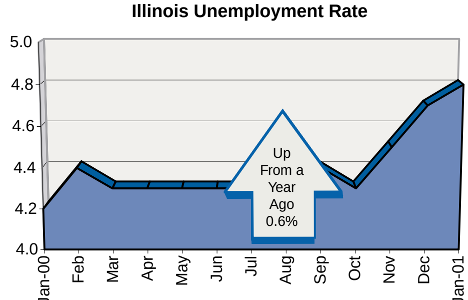
Illinois Direct Exports



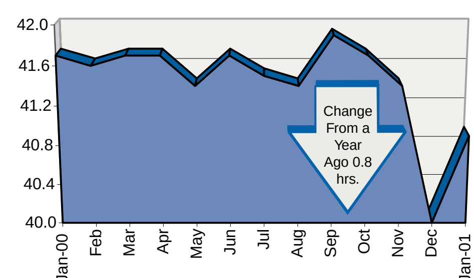
Chicago Purchasing Managers Index



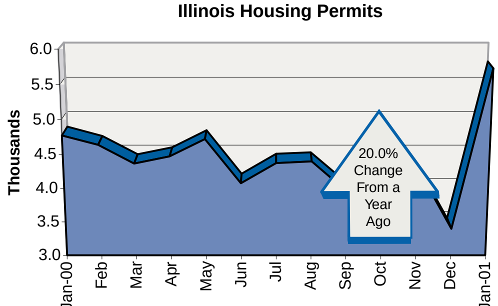
Illinois Unemployment Rate



Average Hours Worked Illinois Manufacturing

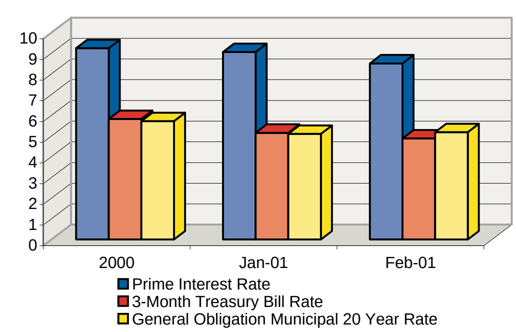


Illinois Housing Permits

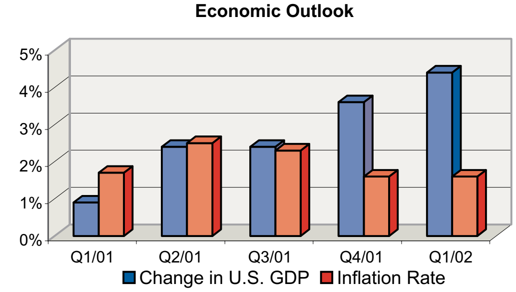


The latest Standard & Poor's DRI forecast of the U.S. economy expects a weak economic performance during the 1st quarter of calendar 2001 with a recovery to begin during the 2nd quarter of the year. U.S. real Gross Domestic Product (GDP) is expected to increase at an annual rate of only 0.9% during the current quarter and then increase at rates between 2.4% and 4.4% over the following four quarters. No inflation problem is expected as the inflation rate is forecast to remain less than 2.5% during this period.

Interest Rate Trends



Economic Outlook



Sources:

Illinois Department of Employment Security:
Hours Worked in Manufacturing, Unemployment Insurance Claims
U.S. Census Bureau:
Direct Exports, Housing Permits
U.S. Bureau of Labor Statistics:
Unemployment Rates, Consumer Price Index
U.S. Bureau of Economic Analysis:
Personal Income
Purchasing Managers Association of Chicago:
Purchasing Managers Index
Standard & Poor's *DRI*:
Economic Forecasts
Federal Reserve System:
Interest Rates

LOCAL Government Line

Local Government Reporting Changes Sought

The Comptroller supports the enactment of House Bill 1883 because the legislation will benefit Illinois' local governments by eliminating duplicative reporting, benefit taxpayers by reducing or eliminating unnecessary tax burdens, and benefit the Office of the Comptroller by assisting in its efforts to streamline reporting and improve the collection financial data. More specifically, House Bill 1883 would eliminate reporting requirements for drainage districts that have no financial activity, eliminate reporting for Public Housing Authorities that report to the federal government, and provide the Comptroller's Office with an option to decline a full audit when deemed prohibitively expensive to taxpayers.

Background

Currently, all units of local governments, excluding school districts and units audited by the Auditor General, are required to file financial reports annually with the Office of the Comptroller. Illinois statutes also require an additional 2,300 local governments to file annual audits with the Comptroller. In fiscal year 1999, 95.2 percent of all local governments complied with the laws. The Local Government Division compiles this financial data and provides the General Assembly with the Fiscal Responsibility Report Card at the end of each reporting period. This report is available to the public and can be accessed on the Comptroller's website.

Unfortunately, some local governments fail to comply with the statutory reporting requirements. Local governments may be delinquent due to inadequate bookkeeping, a lack of understanding on the annual financial reporting process, or because they do not have a treasurer or financial officer. If a government does not provide the financial report or the audit, the Office of the Comptroller is required to contract with an auditor and issue the performance of an audit, at the expense of the local government.

Drainage Districts

Twenty percent of local government delinquencies are due to non-compliant drainage districts. A large number of drainage districts do not report due to inactivity in the specified fiscal year. House Bill 1883 calls for the exemption of drainage districts from their financial reporting requirement in the said fiscal year of no financial activity. This provision would allow the Local Government Division to concentrate its efforts on the collection and analysis of information from financially active units of governments.

Additionally, drainage districts are required to file requests for assessments and plans for expenditures with the circuit court. Therefore, financial activity of these drainage districts is constantly monitored by the circuit court.

Housing Authorities

Beginning in fiscal year 2000, the Office of the Comptroller formed an intergovernmental partnership with the U.S. Census Bureau to streamline local government financial reporting. A legal review indicated that Housing Authorities were considered to be units of local government (municipal corporations). Therefore, they needed to provide annual financial reports to the Office of the Comptroller.

While registering and educating Housing Authorities about the reporting requirements, the Illinois Housing Authority Association agreed that Housing Authorities were local governments and would have to file financial reports under the existing law. However, the Association requested that Housing Authorities be legislatively exempted from the Local Government Audits Act due to extensive reporting requirements to the federal government.

Exemption from Audits

Illinois statutes allow the Local Government Division to decline an audit after reviewing the records of a local government and determining that they are inadequate or unavailable due to the passage of time or the occurrence of a natural disaster. If records are available, the government must be audited, regardless of the government's size or financial ability to reimburse the state. Small governments that are not statutorily required to file an audit with the Office of the Comptroller will become liable for the cost of the audit, issued for non-compliant units of local governments.

The Local Government Division reviewed a list of governments considered chronically delinquent in June 2000. This review indicated that more than fifty percent of the delinquent governments expended less than $10,000 a year. Eighty-eight of the 128 units reviewed were special purpose governments and would not have been required to file an annual audit with the Comptroller's Office, if they had complied with the law.

Since the Comptroller is required to cause an audit of the financial statements of these chronic delinquents, these governments incur a substantial expense. Taxpayers in these districts are liable for the cost of the audit, which in some instances could double or triple the taxes paid to the audited local government.

House Bill 1883 would allow the Comptrollers Office the option to decline an audit if the cost would impose an unreasonable financial burden on the local governmental unit. With the passage of House Bill 1883, the Local Government Division will establish internal procedures to review the financial records of local governments and provide them with non-audited alternatives for compliance. ■

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

General Revenue Fund Cash Flow Crunch Redevelops in February

As expected, the General Revenue Fund (GRF) cash crunch redeveloped in February after no payment delays were experienced in January. Typically weak revenues for February (due in part to fewer processing days than most other months) were outpaced by spending demands resulting in payment delays on the last seven days of the month. At the end of February, the GRF cash balance stood at $18 million with $119 million in spending demands delayed due to lack of cash. As a result, the deficit in GRF was $101 million to end the month, slightly better than the $120 million deficit recorded on February 22nd, which marked the low point for the month. The $18 million balance in GRF was the lowest end-of-month cash balance since February of 1996. Since the beginning of the fiscal year, the General Revenue Fund balance has decreased by $979 million.

The General Funds cash balance (which includes the General Revenue Fund and three school funds) ended January at $272 million, $284 million or 51.1% below last February. All of the decline can be attributed to the General Revenue Fund, which dropped $297 million while the three school funds' cumulative balance increased $13 million. Since the beginning of the fiscal year the General Funds balance has declined by $1.245 billion.

Although a decline in the General Funds balance from the beginning of the fiscal year through February is typical, the magnitude of this year's drop ($1.245 billion) was much greater than in previous years. In fiscal year 1998 the balance declined by $182 million while the 1999 decline was $377 million. During fiscal year 2000, the balance fell by $794 million or 58.8% over the first eight months. This year's drop amounted to 82.1%.

Three factors help explain this year's significant decline in the General Funds balance. First, there is a growing seasonal mismatch between revenue and spending demands during the first several months of the fiscal year. Second, $260 million was transferred in July from the General Revenue Fund to the Fund for Illinois' Future as part of the Illinois FIRST infrastructure program. Third, compared to this time last year, appropriations are up $1.491 billion providing ample room for the $661 million increase in eight-month spending from this year's appropriations.

General Funds Revenues Through Eight Months Up 2.6% Over FY 2000

Through eight months of fiscal year 2001, General Funds revenues totaled $14.813 billion, $380 million or 2.6% higher than last year. Of this year-over-year increase, income taxes accounted for $237 million or 62.4%. Individual income tax receipts of $4.804 billion are up $183 million or 4.0% while corporate receipts have increased $54 million or 12.5%. Other sources of revenue that have recorded increases through February include: riverboat gambling transfers (up $84 million or 38.0%); lottery transfers (up $41 million or 14.2%); investment income (up $37 million or 23.4%); federal sources (up $22 million or 0.9%); inheritance taxes (up $17 million or 7.2%) and Cook County intergovernmental transfers (up $16 million or 11.6%).

The only major sources of revenue to the General Funds that have decreased through February are sales taxes (down $16 million or 0.4%) and other transfers in (down $102 million or 27.3%). The decrease in other transfers in is due to the fact that last fiscal year $76 million had been transferred from the Income Tax Refund Fund and $71 million had been transferred from the University of Illinois Hospital Services Fund to the General Revenue Fund. Through eight months of fiscal year 2001, only $37.4 million has been transferred from the University of Illinois Hospital Services Fund. The $16 million decrease in sales tax receipts reflects the loss of an estimated $150 to $175 million due to the temporary exemption of motor fuel sales from the tax base.

General Funds Spending Through Eight Months Up 5.5% Over FY 2000

Through February, General Funds cash spending totaled $16.058 billion, $830 million or 5.5% above last year. This increase includes a $108 million decrease in lapse period spending, a $661 million increase in spending from current year appropriations, and $277 million more in transfers out.

Awards and grants spending increased $421 million or 4.4% while operations increased $292 million or 6.8% and transfers out jumped $277 million or 21.8% (including the $260 million Illinois FIRST transfer). After eight months of fiscal year 2001, expenditures have exceeded revenues by $1.245 billion resulting in a

VITAL STATS continued back cover

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

		Eight Months		
			Change From Prior Year	
	Feb. 2001	FY 2001	$	%
Total General Funds				
Available Balance	$ 503	$ 1,517	$ 166	12.3 %
Revenues	1,603	14,813	380	2.6
Expenditures	1,834	16,058	830	5.5
Ending Balance	$ 272	$ 272	$ (284)	(51.1) %
General Revenue Fund				
Available Balance	$ 269	$ 997	$ (19)	(1.9) %
Revenues	1,354	12,620	237	1.9
Expenditures	1,605	13,599	515	3.9
Ending Balance	$ 18	$ 18	$ (297)	(94.3) %
Common School Special Account Fund				
Available Balance	$ 72	$ 69	$ 1	1.5 %
Revenues	109	992	(4)	(0.4)
Expenditures	120	1,000	(4)	(0.4)
Ending Balance	$ 61	$ 61	$ 1	1.7 %
Education Assistance Fund				
Available Balance	$ 131	$ 415	$ 205	97.6 %
Revenues	60	691	101	17.1
Expenditures	33	948	314	49.5
Ending Balance	$ 158	$ 158	$ (8)	(4.8) %
Common School Fund				
Available Balance	$ 31	$ 36	$ (21)	(36.8) %
Revenues	309	1,717	23	1.4
Expenditures	305	1,718	(17)	(1.0)
Ending Balance	$ 35	$ 35	$ 19	118.8 %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

		Eight Months		
			Change From Prior Year	
Revenues:	Feb. 2001	FY 2001	$	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 522	$ 4,804	$ 183	4.0 %
Corporate	23	486	54	12.5
Total, Income Taxes	$ 545	$ 5,290	$ 237	4.7 %
Sales Taxes	438	3,988	(16)	(0.4)
Other Sources:				
Public Utility Taxes	101	736	12	1.7
Cigarette Taxes	33	266	1	0.4
Inheritance Tax (gross)	26	254	17	7.2
Liquor Gallonage Taxes	8	86	5	6.2
Insurance Taxes and Fees	4	105	12	12.9
Corporation Franchise Tax and Fees	10	93	11	13.4
Investment Income	27	195	37	23.4
Cook County IGT	0	154	16	11.6
Other	13	155	1	0.6
Total, Other Sources	$ 222	$ 2,044	$ 112	5.8 %
Total, Cash Receipts	$ 1,205	$ 11,322	$ 333	3.0 %
Transfers In:				
Lottery Fund	$ 59	$ 330	$ 41	14.2 %
State Gaming Fund	20	305	84	38.0
Protest Fund	1	6	2	50.0
Other Funds	10	272	(102)	(27.3)
Total, Transfers In	$ 90	$ 913	$ 25	2.8 %
Total, State Sources	$ 1,295	$ 12,235	$ 358	3.0 %
Federal Sources:				
Cash Receipts	$ 303	$ 2,508	$ 52	2.1 %
Transfers In	5	70	(30)	(30.0)
Total, Federal Sources	$ 308	$ 2,578	$ 22	0.9 %
Total, Revenues	$ 1,603	$ 14,813	$ 380	2.6 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

		Eoght Months		
			Change From Prior Year	
Expenditures:	Feb. 2001	FY 2001	$	%
Awards and Grants:				
Public Aid	$ 401	$ 3,207	$ 190	6.3 %
Elem. & Sec. Education:				
State Board of Education	316	2,902	47	1.6
Teachers Retirement	61	488	55	12.7
Total, Elem. & Sec. Education	$ 377	$ 3,390	$ 102	3.1 %
Human Services	206	1,824	43	2.4
Higher Education	113	594	31	5.5
All Other Grants	102	1,026	55	5.7
Total, Awards and Grants	$ 1,199	$ 10,041	$ 421	4.4 %
Operations:				
Other Agencies	$ 402	$ 3,318	$ 217	7.0 %
Higher Education	155	1,260	75	6.3
Total, Operations	$ 557	$ 4,578	$ 292	6.8 %
Transfers Out	$ 190	$ 1,548	$ 277	21.8 %
All Other	$ 2	$ 41	$ (44)	(51.8) %
Vouchers Payable Adjustment	$ (114)	$ (150)	$ (116)	N/A
Total, Expenditures	$ 1,834	$ 16,058	$ 830	5.5 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

		Eight Months		
			Change From Prior Year	
	Feb. 2001	FY 2001	$	%
Personal Services:				
Regular Positions	$ 198	$ 1,565	$ 66	4.4 %
Other Personal Services	21	169	9	5.6
Total, Personal Services	$ 219	$ 1,734	$ 75	4.5 %
Contribution Retirement	40	320	12	3.9
Contribution Social Security	14	111	5	4.7
Contribution Group Insurance	59	413	64	18.3
Contractual Services	36	358	17	5.0
Travel	1	16	0	0.0
Commodities	10	87	(6)	(6.5)
Printing	1	6	(1)	(14.3)
Equipment	3	30	1	3.4
Electronic Data Processing	3	33	(1)	(2.9)
Telecommunications	3	36	5	16.1
Automotive Equipment	2	12	1	9.1
Other Operations	166	1,422	120	9.2
Total, Operations	$ 557	$ 4,578	$ 292	6.8 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

		Eight Months		
			Change From Prior Year	
	Feb. 2001	FY 2001	$	%
State Board of Education:				
General State Aid	$ 248	$ 1,748	$ (12)	(0.7) %
Categoricals	68	1,154	59	5.4
Other	0	0	0	0.0
Public Aid	401	3,207	190	6.3
Human Services	206	1,824	43	2.4
Higher Education:				
Student Assistance Commission	23	313	30	10.6
Community College Board	84	248	15	6.4
Other	6	33	(14)	(29.8)
Teacher's Retirement	61	488	55	12.7
Children and Family Services	44	515	(22)	(4.1)
Aging	18	143	6	4.4
Revenue	1	35	(1)	(2.8)
All Other	39	333	72	27.6
Total, Awards and Grants	$ 1,199	$ 10,041	$ 421	4.4 %

VITAL STATS concluded from page 14

decrease in the available cash balance from $1.517 billion at the beginning of the fiscal year to $272 million at the end of February.

Of the $421 million increase in grant spending, Public Aid is up $190 million or 6.3% through February while the Department of Human Services has increased by $43 million or 2.4%. Awards and grants education spending is up $133 million from last February with the State Board of Education up $47 million, teacher's retirement up $55 million and higher education up $31 million. All other grants spending has increased $55 million or 5.7%.

Spending for operations totaled $4.578 billion through February, $292 million higher than comparable expenditures last year. Higher education operations are up 6.3% or $75 million, while all other operations increased $217 million (7.0%).

Looking Ahead

The General Revenue Fund will be closely monitored in the coming months. The GRF cash position at the end of February ($18 million balance and $119 million in payables) is not expected to improve throughout March. Meaningful improvement in the cash flow situation is not anticipated until after the April 16th income tax deadline.

As noted above, the General Funds cash balance dropped 82.1% from the beginning of the fiscal year to the end of February. Last year, the balance fell 58.8% over the same period. The last time the state saw back-to-back declines of this size was in fiscal years 1990 and 1991 with declines of 73.1% and 80.9%, respectively. The 1991 drop marked the beginning of seven years of cash shortages.

At that time the state was feeling the impact of recession and rapidly rising medical costs. The current circumstances may be somewhat different. However, with the economic future more uncertain now than at any time in the last several years, and the fact that medical costs are on the rise again, there is ample cause for concern as policy makers craft the budget for next year. ■

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Fiscal Focus

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