



# Fiscal FOCUS

QUARTERLY

IN THIS ISSUE  
Fiscal Smarts  
...PAGE 2



IN THIS ISSUE  
Focus On Revenue  
...PAGE 8



IN THIS ISSUE  
Focus On Spending  
...PAGE 9



IN THIS ISSUE  
Vital Statistics  
...PAGE 15



## Comptroller's Continued Fiscal Warnings Document Need for Budget Reform

Two years ago, Comptroller Hynes warned of the consequences Illinois citizens would face if steps were not taken to prepare state finances for the next economic downturn. In calling for the state's elected officials to "make a covenant with its citizens to guarantee . . . state services . . . without taking more out of their pockets," Hynes recalled past recessions and the effects visited on taxpayers when state government was unprepared in the 1980s and '90s:

Already financially strapped by economic circumstances, taxpayers not only saw 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 . . . . Some (state employees) lost their jobs while those employees who stayed picked up the workload. The future of state employees' pensions was threatened when state government 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.

COVER STORY continued, page 5

### Dear Readers:

It is difficult to believe that four years have elapsed since I became Illinois' Comptroller. In many ways the time slipped by quickly. I truly appreciate the opportunity to serve you, and I sincerely want to thank all of you for the support and kindness afforded to me.

Uncertainty appears to be a key word these days. It is uncertain whether or not the recession has bottomed out, if the stock markets will quickly rebound, or if state governments will need to cut budgets even more because sales and income tax revenues are continuing to run lower than expected. What is certain is that the economy does suffer from downward trends occasionally, just as it benefits from growth. Ideally, state governments should be in a position to help ride out the downward cycles. That is why I have proposed an agenda for financial stability that I believe will go a long way to help Illinois deal with such situations.

As many of you know, the Comptroller's Office has a variety of responsibilities. This issue of *Fiscal Focus* reviews some of the major accomplishments of this office over the past four years as they relate to state government functions such as electronic commerce, prompt payments, and debt certification; cemetery care activities such as pre-need licensing, crematory regulation, and cemetery cleanup months; and local government services such as financial reporting and education and training for local government officials.

As is our custom, I encourage you to answer the Fiscal Forum question for this month. You have the opportunity to address changes or improvements that could improve the functioning of this office. Our web site is [www.ioc.state.il.us](http://www.ioc.state.il.us).

Sincerely,

Daniel W. Hynes  
Comptroller



Cover Story . . . . .	cover, 5, 10, 11
From The Comptroller. . . . .	2
Fiscal Smarts . . . . .	2, 4, 12
How Illinois Stacks Up . . . . .	3
Local Government Line . . . . .	6, 14
Cemetery Care Corner . . . . .	7, 12, 14
Focus On Revenue . . . . .	8, 13
Focus on Spending. . . . .	9
Fiscal Forum . . . . .	13
Vital Statistics . . . . .	15, 16
July 2002 Tables . . . . .	17
August 2002 Tables. . . . .	18
September 2002 Tables. . . . .	19
Publication Request Form . . . . .	back cover



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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Web Address: <http://www.ioc.state.il.us>

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# Fiscal Smarts

## Electronic Commerce Update

The mission of the Electronic Commerce Section (EC) of the Comptroller's Office is to oversee and monitor the State's electronic payments from all warrant-writing systems and to guide the future development of electronic payment processing for the benefit of state taxpayers, employees, retirees, vendors and other payees. The section is also responsible for administering the *Illinois Direct Deposit* program for commercial vendors who provide goods and services to state agencies. Direct deposit is a safe, efficient, cost-effective and reliable vehicle for payees to receive their payments. Its use eliminates the manual labor and costs associated with printing and mailing paper warrants. The number of direct deposit payees has increased in all systems during the past four years and efforts have been focused upon careful monitoring and reconciling of all payment processing and providing quality customer service to the State's vendors and payees.

To increase efficiencies for both the State and its payees, the Comptroller strongly encourages the use of electronic payments wherever possible. Toward that end, the Comptroller's Office has worked cooperatively with other state agencies over the past few years to expand participation in direct deposit and to enhance the payment processing systems. Because of these joint efforts, the number of direct deposit transactions increased from 3.4 million in fiscal year 1998 to over five million in fiscal year 2002. Highlights of these efforts are summarized below.

### State Agency-Administered Direct Deposit Programs

Direct deposit (Electronic Funds Transfer, or EFT) has been available to state employees and retirees since the mid-1980s. Agencies and the state retirement systems have the

*FISCAL SMARTS continued, page 4*

# HOW Illinois Stacks Up

## State Tax Revenue Continues Drop

State government tax revenue declined by 10.4 percent nationally in the April-June 2002 quarter compared to the same period in 2001. According to a recent report from the Nelson A. Rockefeller Institute of Government, this was the fourth straight quarter of revenue decline, and the decline continues to accelerate. Although the April-June quarter is usually bolstered by final payments accompanying income tax returns, final returns this year were down by 29 percent. This falloff, coupled with declines in estimated tax payments, withholding, and corporate income taxes and weak sales tax growth, led to the worst quarter for state tax revenue in the last eleven years.

By region, the decline was worst in the Far West (-21.2%), followed by New England (-16.5%), the Mid Atlantic states (-13.8%), the Rocky Mountain states (-10.9%), and the Plains states (-8.3%). The Southwest and Great Lakes fared better with declines of 6.6 percent and 5.2 percent respectively, while the Southeast came in at - 3.3 percent.

Percent Change in Quarterly Tax Revenue, April-June 2001/April-June 2002

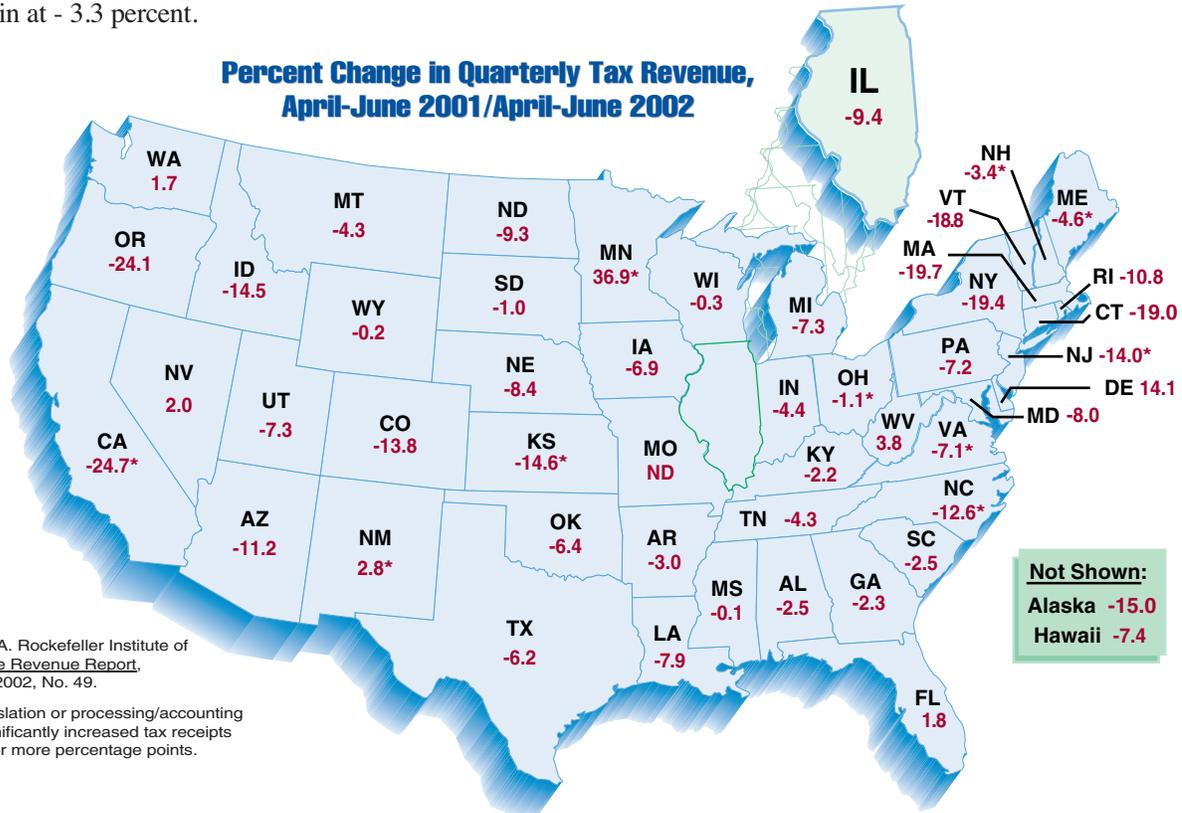
Rank	State	Percent Change
1	California	-24.7 *
2	Oregon	-24.1
3	Massachusetts	-19.7
4	New York	-19.4
5	Connecticut	-19.0
6	Vermont	-18.8
7	Alaska	-15.0
8	Kansas	-14.6 *
9	Idaho	-14.5
10	New Jersey	-14.0 *
11	Colorado	-13.8
12	North Carolina	-12.6 *
13	Arizona	-11.2
14	Rhode Island	-10.8
15	Illinois	-9.4

\* Indicates legislation or processing/accounting changes significantly increased tax receipts by one or more percentage points.

California ranked first with a decrease of 24.7 percent with Oregon a close second at -24.1 percent. Massachusetts, New York, Connecticut, and Vermont were ranked next with declines ranging from 19.4 percent down to 18.8 percent (see table). Illinois' change of -9.4 percent barely missed double digits, and ranked 15th among all states. Relative to the other Great Lakes states, Illinois had the largest reduction. Michigan's revenue dropped 7.3 percent, Indiana's 4.4 percent, Ohio's 1.1 percent, and Wisconsin's only 0.3 percent.

Despite the downturn, seven states had increases in their quarterly revenues. These states were Minnesota (36.9%), Delaware (14.1%), West Virginia (3.8%), New Mexico (2.8%), Nevada (2.0%), Florida (1.8%), and Washington (1.7%). ■

Percent Change in Quarterly Tax Revenue, April-June 2001/April-June 2002



SOURCE: The Nelson A. Rockefeller Institute of Government, *State Revenue Report*, September 2002, No. 49.

\*Indicates legislation or processing/accounting changes significantly increased tax receipts by one or more percentage points.

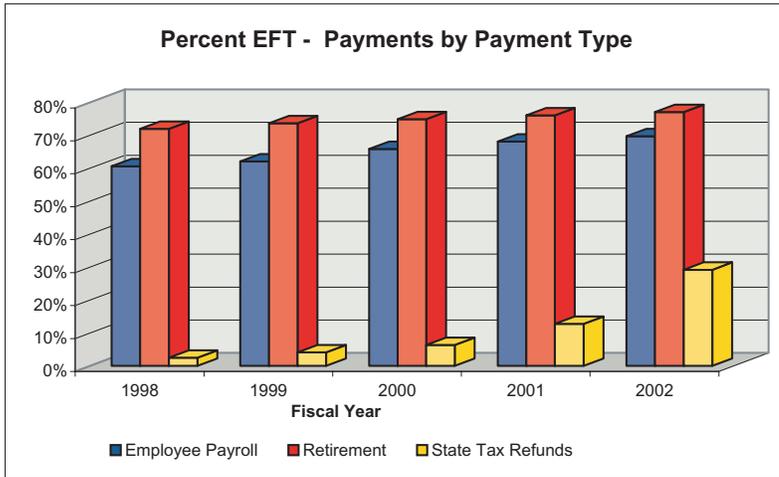
responsibility of enrolling their payees and administering the programs. In June, 2002, over 78 percent of state retirees and nearly 73 percent of state employees received their payments through direct deposit. During recent years the demand for direct deposit of other types of state payments has increased and the Comptroller's Office has responded accordingly. With assistance and cooperation of the agencies, direct deposit payments are now available to more payees of the State of Illinois.

In 1991, direct deposit payments were made available to public assistance recipients followed in 1995 by a limited, agency-administered commercial program for a selected group of payees and grantees of the State Board of Education and the Department of Commerce and Community Affairs. In 1997, the Department of Revenue and the Comptroller combined efforts to offer an expedited tax refund process for taxpayers who choose direct deposit to receive their refunds. (The Payment Type and Tax Refunds charts illustrate the increase in EFT transactions by fiscal year.) Direct deposit was made available to investors in *The Illinois Funds*, the State Treasurer's investment program, in 1999.

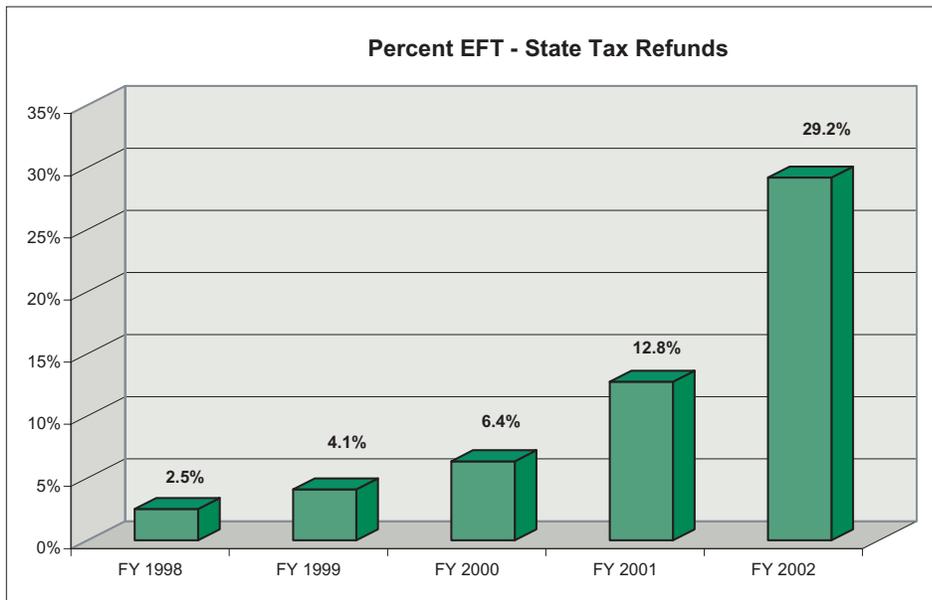
Over the last two years, electronic payments were offered to certain payee populations of the State Lottery, Human Services, Transportation (a pilot program for road builders), and Public Aid.

### Comptroller-Administered Commercial Direct Deposit for Vendors

In 1998 the commercial direct deposit program was expanded to serve vendors who provide agencies with goods and services (*Illinois Direct Deposit*). Because vendors may conduct business with multiple agencies, it was necessary



for the Comptroller's EC Section to assume responsibility for enrollment and administration of the program. Initially, vendors were able to enroll through the Internet; however, it quickly became clear



that this enrollment process was not satisfactory. Many vendors signed up without understanding the unique features of the program (e.g., the limitation of one bank account per Vendor ID, the reliance upon

paying agencies to provide needed payment description information, and so forth). To improve customer satisfaction, the EC staff developed a customized enrollment process that included a brief interview with vendors prior to enrollment. Another enhancement of the commercial program was a streamlined program for state employee reimbursement payments. This program is jointly administered by the Comptroller's EC Section and the cooperating agencies. Agency staff provide enrollment forms to employees, verify their eligibility and serve liaison functions with the Comptroller's Office. Twenty-two agencies currently participate in this program. The Commercial Transactions chart on page 12 illustrates the steadily increasing numbers of electronic payments by fiscal year.

In addition to administering the commercial direct deposit program, EC staff oversee direct deposit transactions in all systems and follow up with any returned payments or problems. They also provide customer service and assistance to the State's vendors, agencies and other payees who have questions regarding their electronic payments.

### Electronic Data Interchange (EDI) Compliant

One of the most formidable obstacles to successful direct deposit for many vendors is the inability to recognize electronic payments and post them to their accounts. In 2000, in response to that need, Comptroller Hynes instructed

technical and accounting staff to change the payment voucher and processing systems to give agencies the capacity to provide comprehensive payment information electronically to their vendors. As a result,

If state government persists in its failure to prepare for the rainy day, the Comptroller warned, sooner or later our citizens would again pay the consequences. Unfortunately, the rainy day has arrived, state government was again unprepared, and the public is again paying the consequences.

### **Securing Illinois' Economic Future: An Agenda for Financial Stability**

Comptroller Hynes did more than warn of the adverse effects of fiscal shortsightedness; he also laid out steps to lead state government to financial stability. Hynes' plan, *Securing Our Economic Future: An Agenda for Financial Stability in Illinois*, challenged state leaders to adopt four common-sense measures designed to protect taxpayers when the economy turns sour. Even now, the Comptroller continues his call for fiscal reform, including:

#### ✓ **Controlling the Growth in State Spending.**

The Hynes plan would afford state budgeters considerable growth in spending to address inflation and new spending demands while still saving for a recession. Any year that general funds revenues grow by more than 4%, state government would earmark 1% of those available revenues for the state's savings account, the Rainy Day Fund.

#### ✓ **Saving for a Rainy Day**

To establish a reserve to avert the need for tax increases and harmful budget cuts when the economy sputters, the Hynes plan sets a modest target to maintain the Rainy Day Fund at a balance of 4% of the state's annual general funds revenues.

#### ✓ **Paying Down Our Debts**

After reaching the Rainy Day Fund target, Hynes would not abandon fiscal discipline. Under his plan state government would continue to save 1% of revenues for further debt reduction. Overflow funds from the Rainy Day Fund would be deposited into an Early Debt Retirement Fund to reduce

the long-term debts that now consume precious general revenues that could be put to better use. These include deferred liabilities under Section 25 of the State Finance Act, unfunded pension liabilities, and the state's bonded indebtedness, which costs Illinois over \$360 million a year in interest payments alone.

#### ✓ **Truth-in-Budgeting**

By exposing questionable revenue estimates and deferred spending, the Hynes agenda would end the "smoke and mirrors" or financial gimmicks that have been used to make Illinois' budget appear to be balanced.

1) **Truth-in-Revenue.** Unlike most other states' budgets, Illinois' budget is not based on an official revenue estimate. Hynes would establish a Revenue Estimating Council to clear up confusion about revenues, to certify an official, consensus estimate each fiscal year, and to monitor budget performance throughout the year.

2) **Truth-in-Spending.** Section 25 of the State Finance Act gives Illinois its own form of credit card that allows it to charge now and pay later, building up hundreds of millions of dollars in debts. The Hynes plan would restrict the use of the credit card and ensure that these amounts are identified each year in the state budget.

The Comptroller's advice went unheeded, and the consequences that he warned about have been revisited on Illinois.

### **Unheeded Warnings: Financial Past Revisited**

The Comptroller's constitutional responsibilities as the Chief Fiscal Officer of the state obligate him to sound the alert when the first signs of weakness materialize in the state's fiscal condition.

✓ In the Spring of 1999, shortly after taking office, Comptroller Hynes stressed the need for a Rainy Day Fund to soften the impact when diffi-

cult economic conditions arrive.

- ✓ In April of 2000, the Comptroller criticized the use of accounting gimmicks to disguise budget problems and warned of a possible budget crunch, cautioning leaders that short-term borrowing or delaying payment of bills might be necessary to manage the state's cash flow.
- ✓ In May of 2000, Comptroller Hynes again cautioned about state spending, warning that "we are spending like there is no tomorrow."
- ✓ In December of 2000, the Comptroller notified state leaders of a cash shortage in the General Revenue Fund that required delay of scheduled payments to the state's vendors.
- ✓ In February of 2001, the Comptroller announced that the state's budget deficit for the previous fiscal year (2000) had grown to \$315 million and again urged fiscal restraint during consideration of the fiscal year 2002 budget.
- ✓ In June of 2001, the Comptroller noted that the opportunity was missed (during Spring budget negotiations) to "change the way fiscal matters are approached" and warned that state revenues will not meet the projections on which the new budget is based.

While those warnings went unheeded, the state's finances continued to deteriorate until they reached crisis proportions when Governor Ryan ordered state agencies in December, 2001, to identify and reserve \$460 million out of the fiscal year 2002 budget. In the ensuing months, the Governor and state legislative leaders considered a myriad of options to address an ongoing fiscal year 2002 budget crisis and a budget gap for fiscal year 2003 that approached \$2 billion.

How was that budget gap closed? With few options available, state budgeters were forced to revert to the same measures that the Comptroller warned were used in the past when faced with financial woes: tax increases and other revenue enhance-

*COVER STORY continued page 10*

# LOCAL Government Line

## Local Government Improvements

The Comptroller's Office is responsible for monitoring the financial status of local governments and providing assistance and training to local government officials to fulfill their fiscal duties. These responsibilities are carried out by the Local Government Division.

Upon taking office in January 1999, Comptroller Hynes made a commitment to increase accountability, efficiency, and innovation in local government finance. Over the past three years the Hynes Administration has dramatically improved local government reporting compliance, introduced annual educational training programs, launched an on-line filing program, and a variety of other programs, services and initiatives.

In February 2000, the Local Government Division introduced the **Toll Free Local Government Assistance Hotline** to encourage local officials to contact the Comptroller's Office with their questions, concerns, issues, and comments. The Hotline was made available for local governments and individuals needing to request general information, discuss local government compliance, get help with Comptroller Connect Internet Filing, or obtain assistance completing their financial reports, all at no charge. Since its implementation, the Local Government Assistance Hotline has received more than 11,500 calls.

In response to local government feedback,

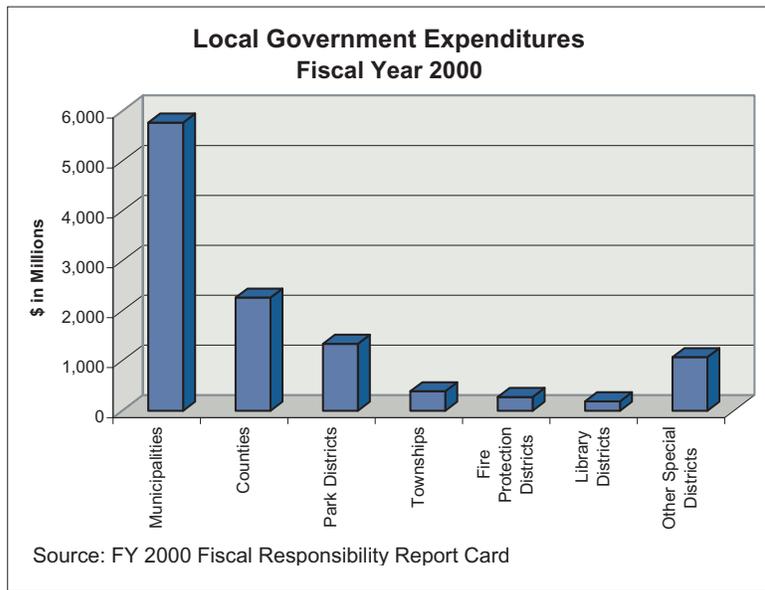
in June 2000, Comptroller Hynes launched an electronic annual financial reporting application called **Comptroller Connect Internet Filing** that allows local governments to file their Annual Financial Reports (AFRs) via the Internet. Comptroller Connect Internet Filing allows local governments to access an electronic format that is devoid of specific software and operational from all computer sys-

local governments in filling out the AFRs, come into compliance, and increase both the local governments' and the public's knowledge and understanding of the financial affairs of Illinois local governments.

For the first time since 1997, the Office of the Comptroller has sponsored statewide **Local Government Education and Training Programs** for local officials and accounting professionals on Annual Financial Reporting.

In addition to the AFR training, local officials and accounting professionals were educated and trained on Tax Increment Financing (TIF) Districts reporting and new accounting standards. Over the past two years, Comptroller Hynes has offered 14 Local Government and Education Training Conferences. In addition to these training programs, the Local Government Division has held specialized training for Soil and Water Conservation Districts, Fire Protection Districts, and Township governments. Over 4,000 local government officials and accounting professionals have been trained at these programs.

In response to various local government officials and local government organizations, the Comptroller's Office developed an **Annual Financial Report (AFR) Short Form** beginning with fiscal year 2000 reporting. Smaller municipalities, townships, and special purpose governments that meet select criteria can file their annual financial data on a Short Form that elimi-



tems with Internet access. Internet filing provides a customized, interactive form that helps eliminate unnecessary paperwork and immediately identifies errors. Since its inception, more than 3,000 users have filed their reports via Comptroller Connect Internet Filing.

Committed to improving local government compliance, the quality of the financial data collected, and the Fiscal Responsibility Report Card, the Local Government Division has staff available to assist

# CEMETERY

## Care Corner

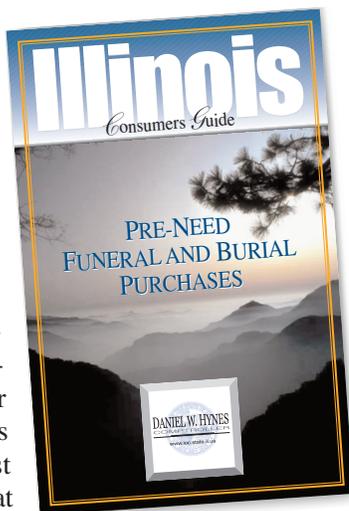
### Cemetery Care Accomplishments

State statutes require the Comptroller's Office to play a significant role in monitoring the funeral and cemetery care business in Illinois. This is accomplished through the Cemetery Care and Burial Trust (CCBT) Department.

Since being elected to office in 1998, Comptroller Hynes has focused a great deal of attention on oversight of the cemetery and funeral home industry. His efforts have resulted in stronger consumer protections within the law, technological advances within the Comptroller's Office, and increased education and awareness programs throughout Illinois.

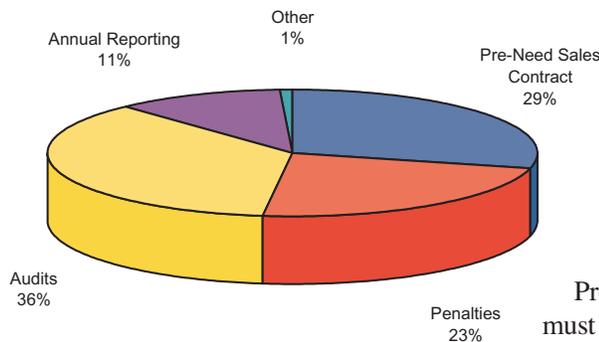
#### Consumer Protection

Among Comptroller Hynes' recent accomplishments is a consumer-friendly legislative package. Effective in January 2002, this legislation established substantial new protections for consumers purchasing pre-need cemetery and funeral services. All contracts presented to consumers by a seller of pre-need goods and services must now be printed in at least an 11-point font. The seller must also clearly disclose all rights and obligations within the pre-



need contract. Before any pre-need contract is signed, the consumer must be presented with an easy to understand booklet outlining their rights under Illinois law.

Types of Fees Collected  
FY 2002



The new protections have helped the Comptroller root out financial mismanagement and deception of consumers by unscrupulous licensees. In many cases, aggressive legal actions have been taken against these licensees, resulting in repayments to defrauded customers, including one record repayment of \$1.3 million.

#### Crematory Regulation

Another piece of legislation proposed by Comptroller Hynes and enacted by the General Assembly this year will significantly enhance regulation of the crematory industry. Following allegations that a crematory owner in Georgia mishandled hundreds of

bodies over several years, the Comptroller's Office took a close look at crematory regulations in Illinois. In drafting this initiative, Comptroller Hynes sought input and advice from key groups such as AARP, Citizens Action, the Coalition for Consumer Rights, the Illinois Cemetery & Funeral Home Association and Illinois Funeral Directors Association.

In the past, crematories were not monitored by any specific state agency. Under Hynes' legislation, each crematory will be inspected annually to ensure the display of the Comptroller's license, as well as a permit from the Environmental Protection Agency (EPA). Crematories must be in compliance with local health and zoning laws. The new law also requires crematory operators to complete training programs and makes it a Class 3 felony for any person who destroys or damages the remains of a deceased human being or who desecrates human remains. A key consumer provision in the law requires crematory operators to notify the authorized family member of reasons for any delays in the cremation process if it is not performed within the contemplated timeframe.

#### Cemetery Cleanup

Since entering office, the Comptroller has been committed to raising awareness throughout the state of cemetery and funeral home issues. One program designed to outline the growing problem of abandoned and neglected cemeteries is Cemetery Clean Up Month. The goal of

*CEMETERY CARE CORNER continued, page 12*

## Debt Certification Law Now in Effect

In fulfilling a pledge made in his first campaign, State Comptroller Hynes successfully fought for a new law that establishes a zero tolerance for anyone who owes debt to the State such as individuals owing back taxes, evading child support payments being recouped by the Department of Public Aid, or owing other obligations to the State. Comptroller Hynes believes state contracts should be awarded only to responsible citizens, not for people who shirked their responsibilities to their children or their communities.

### State Contracts Targeted

One area of debt collection that needed improvement involved state contractors. Prior to the new law, state contractors who owed debt to the State may or may not have had their payments withheld through the Comptroller's Offset System. A potential loophole existed since any offset totally depended on state agencies submitting the names of debtors to the Comptroller's Offset System prior to payment awards. If an agency did not report a contractor's debt, the Comptroller could not take any action. The legislation supported by Comptroller Hynes effectively addressed this concern by requiring potential contractors to certify that they don't owe debt to the State. This certifica-

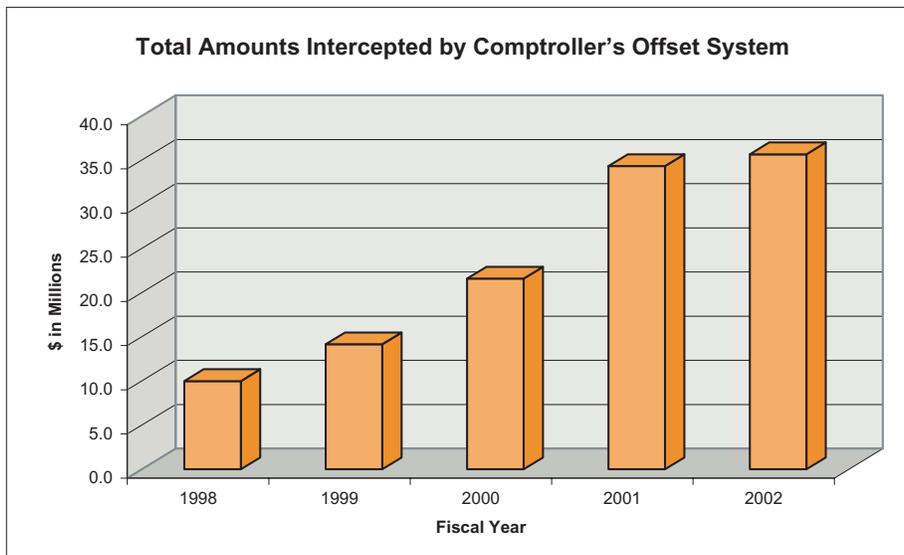
tion must be made before a contract can be entered into with the State.

Highlights of the provisions of Public Act 92-404 that amended the Illinois Procurement Code and the Illinois State Collection Act are shown below. This law became effective on July 1, 2002.

- **No Contract if Debt is Owed** - Prohibits persons from submitting a bid or entering into a contract with a state agency, if the person knows he or she is

tify that they are not barred from doing business with the State due to debt delinquency.

- **State Agency Check with Comptroller's Offset System** - Permits state agencies to use the Offset System to check if a particular contractor is on the Offset list. This provides a tool for state agencies to review whether a claim was forwarded to the Offset System on a particular contractor or potential contractor.



- **Contracts may be Voidable** - Permits agencies to void the contract, if it is in the best interest of the State, when a contractor is found to be in delinquent status.

This legislation aims to uphold a fundamental concept of fairness and responsibility and applies those values to the state procurement process. When the law was signed by the Governor, Comptroller Hynes said, "This

measure provides a screening mechanism that requires potential contractors to make good on their state financial commitments, before obtaining business that is funded by honest taxpayers."

*FOCUS ON REVENUE continued, page 13*

delinquent in payment of any state debt, unless that person has entered into an approved repayment plan. The contractor further acknowledges that the contracting state agency may declare the contract void if this certification is false.

- **Contract Certification** - Requires each person bidding for state contracts to cer-

# FOCUS

## On Spending

### Hynes Secures Prompt Payment Reforms

Legislation drafted by Comptroller Daniel W. Hynes, designed to speed the state's bill paying process and payments to vendors, was signed into law by the Governor in the summer of 2001 and took effect in July, 2002.

The changes embodied in House Bill 1728 (now Public Act 92-384) reform the Illinois Prompt Payment Act and received unanimous approval from the Illinois General Assembly. The reforms accomplish the following:

- Substantially decrease the amount of time a state agency has to pay a properly submitted bill from 90 days to only 60 days
- Require state agencies to notify vendors as soon as possible of any revised or additional information needed to eliminate payment delays
- Enhance accountability of state agencies by requiring the recording of payment start dates allowing vendors to verify when the payment "clock" begins. Also mandates agencies to perform additional reporting responsibilities of payment and penalty data
- Ease vendor access to appropriate interest charges if the state fails to promptly pay legitimate obligations

Various vendor groups and business organizations applauded the bill's passage. Among the comments received were the following:

"The provider community welcomes Hynes' legislation as the most significant reform of the state payment process in the

past 20 years," stated the Illinois Association of Rehabilitation Facilities. "It offers a tremendous boost to those who provide direct care and social services to Illinois' citizens."

The Illinois Chamber of Commerce noted, "We are very happy to see House Bill 1728 pass the General Assembly. This legislation will undoubtedly benefit businesses that provide goods and services to the state."

A spokesman for the Illinois Pharmacists Association offered these sentiments saying, "This is solid pro-business legislation that offers definition and structure to protect businesses. It is a step in the right direction that will enhance the partnership between our enterprises and the State of Illinois."

Comptroller Hynes noted at the time of passage that the final legislation was the result of extensive cooperation between his office and other state agencies and that it addressed issues long advocated by the vendor community. "The time is past due for Illinois government to provide prompt payment and fair treatment to the vast range of Illinois vendors who directly and indirectly serve our state's citizens," said Hynes. "Potentially tens of thousands of Illinois businesses, ranging from child care providers to hardware stores, will benefit from this bill." ■

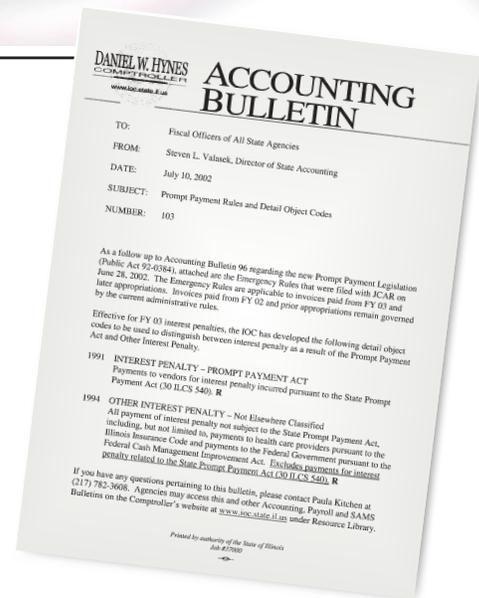
### NEW RULES

On September 19, 2002, the Comptroller's Office adopted rules implementing the new prompt payment reforms.

In general, state agencies are responsible for developing internal procedures to permit full compliance with the State Prompt Payment Act. Some of the key provisions of the rules are:

- Interest penalty payments must be processed on a voucher separate from the voucher submitted for payment of a bill.
- Interest penalty payments must be charged to the same expenditure authority account to which the related goods and services were charged.
- If the appropriation to be charged is exhausted and not reappropriated, funds should be transferred and obligated into the proper appropriation.
- If both the appropriation to be charged and an agency's transfer authority are exhausted, or an agency has improperly refused to pay interest, vendors may have recourse before the Court of Claims.

State agencies are reminded to use detail object code 1991 in making interest penalty payments under the Act. Accounting Bulletin Number 103, distributed to state agencies on July 10, 2002, provides further guidance in this area.



ments, budget cuts, borrowing, withholding payment of bills, and shifting revenue estimates.

✓ **Taxes.** The Governor and General Assembly agreed to over \$600 million in tax increases and changes, including:

- Raising the cigarette tax by 40¢ per pack to generate \$235 million in new revenue;
- Raising taxes on riverboat casinos by \$135 million; and
- De-coupling the state’s tax law on accelerated business depreciation from federal law (to avoid tax relief enacted in last’s year federal stimulus bill) to save \$240 million.

✓ **Other Revenue Enhancements.**

The Governor and General Assembly also approved more than \$430 million in other revenue enhancements, including:

- Transferring \$165 million from special funds in the state treasury that are dedicated to specific purposes (such as the Grade Crossing Protection Fund, which is used to upgrade railroad crossings);
- Diverting \$147 million in Road Funds to the Secretary of State and the State Police;
- Diverting \$26 million in sales taxes for photoprocessing from local governments to the state General Revenue Fund; and
- Diverting \$15 million in receipts from the transfer tax on real estate transactions to the GRF.

✓ **Budget Cuts.** As in the past, state budgeters were forced to make deep cuts in the budget as revenues fell below projections. In total, state appropriations were reduced by over \$1.1 billion. Some of the cuts would not only reduce or eliminate services, but would also amount to hidden tax increases for some people in the form of higher property tax levies, higher fees or co-pay-

ments, and rising college tuition. Some examples:

- A 3.3% decrease in appropriations for elementary and secondary education, including an \$80 million reduction in the General State Aid Formula – the per-pupil foundation level remained unchanged at \$4,560 for the first time since 1991 – and \$42 million less in reimbursements to schools for categorical programs, such as special education. Some schools have announced that they will raise their property tax levies, including Chicago public schools which are looking for a \$50 million property tax increase, in

- Day care subsidies for the working poor and welfare-to-work families were reduced by \$47 million.
- Nursing homes are cutting back on services, raising rates, refusing to take Medicaid patients, or even closing after a \$106 million cut in their reimbursements from the Department of Public Aid. Reportedly, 30 nursing homes have filed for bankruptcy.
- Anti-smoking programs were slashed by 75%, from \$47 million to \$12 million. The popular “I Decide” program, targeted at teen smokers, was eliminated.

✓ **Job Cuts.** The Bureau of the Budget estimates that 7,300 jobs will be eliminated under the new budget through early retirement, attrition, and layoffs.

✓ **Borrowing.** In order to stretch a shortage of cash, maximize payment of the state’s bills, and keep reimbursements flowing to vendors, state officials were forced to approve some short-term borrowing. Short-term borrowing consists of two types:

- The issuance of one-year notes totaling \$1 billion that must be repaid by the end of the fiscal year; and
- A transfer of \$226 million from the Budget Stabilization Fund, the state’s rainy day fund, which also must be repaid at the fiscal year’s end.

In addition the General Assembly authorized “securitization” of \$750 million in tobacco settlement funds, whereby the state would issue bonds to be repaid from annual settlement payments to the state by tobacco companies.

✓ **Withholding Payment of Bills.** Due to the cash shortage, the Comptroller cannot pay all of the state’s bills on time. Last winter and spring, payments to

### Agenda for Financial Stability in Illinois

#### ■ Controlling 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

#### ■ Improving the Budget Process

- 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

part to make up for \$33 million in lost state aid.

- The state’s colleges and universities, which lost \$112 million or 4.2% in their budgets, are raising tuition an average of 12.5% for the current academic year. At the same time, the Monetary Award Program (MAP), which provides scholarship money to students in need, was cut by \$38 million – over 12,000 fewer kids will receive grants; those who do will get 5% less than last year.

vendors slowed to a crawl as the backlog of bills climbed well over \$1 billion. The table below shows the current backlog of payments and the average time that vendors must wait beyond the usual time frame. The slowdown of payments reached its nadir last spring, and the current backlog of bills would have deteriorated beyond that level were it not for funds coming from the Rainy Day Fund and the short-term notes.

The Comptroller continues to watch the state budget, most recently noting that even the reduced revenue estimates for this fiscal year *may be too high*. If so, the fiscal year 2003 budget made be in need of even more revision. For example, through September 2002, cash receipts from state sources are down 1.1% compared to the projected annual growth of 4.8%. This means cash receipts would have to increase 6.6% to meet the current estimate, but there does not appear to be any reason to believe that an economic recovery will generate the magnitude of economic activity necessary to reach this growth rate.

### The Need for Fiscal Reform

Comptroller Hynes continues to advocate for the fiscal reforms that – now more than ever – are needed to soften the consequences of an economic downturn like the one now being experienced. The reality of those consequences, about which Comptroller Hynes has warned state leaders, reinforces the arguments for fiscal reform.

Would Illinois have fared any better had those reforms been in place? Let's take another brief look at the Comptroller's Agenda for Financial Stability in Illinois and how it might have eased the deleterious effects of the current budget crisis.

✓ **Controlling the Growth in State Spending.** Had state budgeters spent 1% less each of the last three years as

anticipated by the Comptroller's proposal, the state budget would have been \$724 million less, obviating the necessity of cutting that amount of the budget or raising that much in new revenue. Hynes, among others, voiced early concerns about overspending. The budget crisis could have been delayed and attenuated.

Backlog of Unpaid Bills (Dollars in Millions)		
	Current (10/18/02) *	Peak/(Date)
Dollar Amount	\$1,239	\$1,382 (4/9/02)
# of Vouchers	156,936	217,258 (6/18/02)
Delay (in business days)	21	33 (6/20/02)

\*The backlog would be almost \$1 billion higher were it not for \$1 billion in short-term borrowing (\$700 million in GRF) and the use of \$226 million from the Rainy Day Fund.

✓ **Saving for a Rainy Day.** Had that 1% then been invested in the state's Rainy Day Fund, \$724 million would have been available for state budgeters to use to defray cuts in services or tax increases, or to ease the state's cash flow problems and shorten the delays in paying frustrated vendors.

✓ **Paying Down Our Debts.** Illinois went into the current fiscal year with \$761 million in unpaid bills left over from fiscal year 2002. Over the last three years, the state has averaged \$1.025 billion in so-called Section 25 or prior-year obligations deferred from one fiscal year to the next. Any amount that we can spend to reduce this backlog would free up funds for other budget purposes or to improve cash flow.

✓ **Truth-in-Budgeting.** Last year's budget session involved a lot of discussion and controversy over revenue projections and the true magnitude of the budget deficit. The Bureau of the Budget offered one estimate; the legisla-

ture's Economic and Fiscal Commission presented differing figures. Both agencies later revised their estimates. Did anyone really know which estimate the final budget was based on? Was the budget deficit \$1 billion? \$1.3 billion? Or \$2 billion? Budget hearings were held, but legislators still complained that they knew little about the budget on which they were finally asked to cast a vote.

Comptroller Hynes' proposal for a bi-partisan, multi-institutional Revenue Estimating Council to certify an official revenue estimate – as many other states do – would go a long way in shining some light over budget proceedings. The Council would let everyone know the truth about the budget – whether and how much of a budget hole the

state faced. The Council would also track budget implementation, looking for early indications that state revenues or expenditures were not performing as expected. [See *Fiscal Forum* on page 13].

Performing his duty as the state's Chief Financial Officer, Comptroller Hynes has not hesitated to alert everyone when his evaluation of the state finances evinced a weakness, even when others scoffed at his appraisal. His early warnings and prescription for improvements were issued at a time when action could have prevented further erosion of the state's fiscal condition. Events have borne out the accuracy of his warnings and the need for the kind of fiscal medicine he is prescribing. ■

Fiscal Smarts concluded from page 4

agencies now have the choice of using the revised voucher format to meet the payment needs of their vendors.

Web Site

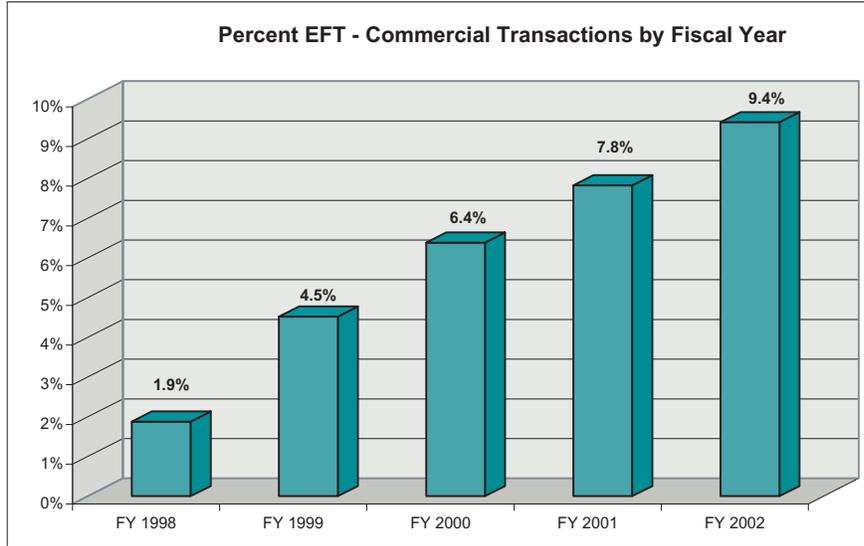
The Comptroller's Web site contains a Vendor Payments section that provides commercial payment information for all vendors, whether they receive paper warrants or EFT payments. The Comptroller's Office provides general information about payments on the site, such as paying agency name and code, appropriation information, voucher number, and payment issue date. If agencies provide it on the payment vouchers, vendors may view more detailed payment description information. At the very least, an agency contact telephone number is provided for the vendor to call if more information is

needed about the payment. For some vendors, the website payment information is all that they require to maintain their records.

Future Projects

In the continuing effort to upgrade and improve the payment and accounting systems, the Comptroller's Office is working

to further reduce warrant production by transferring funds, payments and remittance information electronically; by presenting accounting statistics and payment information on the Comptroller's Web site; and by converting the transfer of data between the Comptroller's Office and other agencies from tape to an electronic file transfer system. As work proceeds, it remains Comptroller Hynes' goal to continue to increase efficiencies while maintaining the integrity of state accounting systems and processes. ■



Cemetery Care Corner continued from page 7

this program is to restore dignity to the final resting places of those who are buried in what have become abandoned and neglected cemeteries. Each year, approximately 15 cemeteries are selected from various areas of the state, and restored by hundreds of volunteers. These volunteers include students, veterans and community organizations. In May of 2002, the Comptroller kicked off his 3rd Annual Cemetery Clean Up Month project. Through this annual program, Comptroller Hynes hopes not only to restore these few cemeteries, but also to make people aware of the abandoned cemetery problem and encourage them to become involved in restoring cemeteries within their communities.

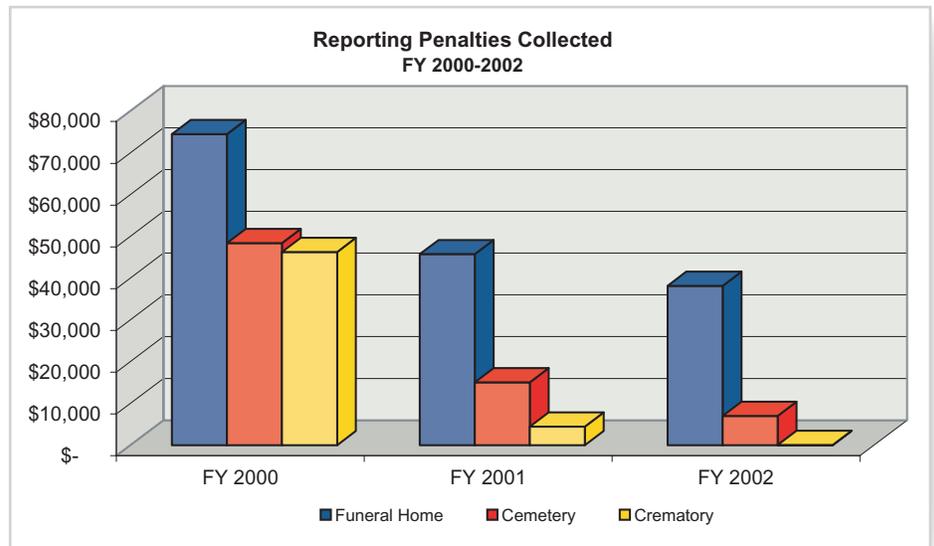
particularly those with low incomes, make informed decisions about the final arrangements for their loved ones. This information is being distributed to social service organizations, community groups, and government agencies. In the video,

which is narrated by Comptroller Hynes, consumers are encouraged to know exactly what goods and services they are purchasing, and to keep a copy of the signed contract. Consumers are also encouraged

CEMETERY CARE CORNER continued page 14

Latest Initiatives

A more recent endeavor with regard to community awareness is the Cemetery Care Consumer Education Program. This program, consisting of literature and a brief video, is designed to help families,



### What is the Illinois Debt Collection Board?

The Debt Collection Board was created under Public Act 86-1425 in 1991. The Debt Collection Board is comprised of the Director of the Department of Central Management Services, the State Comptroller, and the Attorney General, or their designees. The Board was established to provide a centralized collection service to aggressively pursue delinquent accounts that are more than 180 days past due. The Board pursues debt accounts after reasonable efforts by the individual state agencies that are primarily responsible for collecting debts owed to them.

The Debt Collection Board is authorized to enter into contracts with outside collection agencies to help collect outstanding debt. These collection agencies are paid a contingency fee based on the age, nature, and amount and type of accounts referred. Currently, the Board has contracted with four vendors to collect debt for the State. Agencies can also contract debt collection activities with these vendors under the Board's contract as well.

It is important to understand that activities of the Debt Collection Board are intended to supplement, not substitute for, debt collection efforts by state agencies. State agencies continue to be responsible for collecting the debts owed to them.

### What is the Comptroller's Offset System?

The State Collection Act of 1986 requires state agencies to submit names of debtors, if the debt owed is more than \$1,000 and over 90 days past due, to the Comptroller's Offset System. The Offset System is an effective collection tool for the State to intercept payments to debtors. Once agencies submit the claims to the Offset System, all payments issued by the Comptroller are screened against these past due accounts. If a state payment is due to a particular debtor, the Comptroller's Office will intercept or offset the amount owed, in whole or in part, from the payment. Under Comptroller Hynes' administration's aggressive enforcement of the Act, the Offset System has intercepted a record \$109 million on behalf of the State. ■

## Fiscal Forum

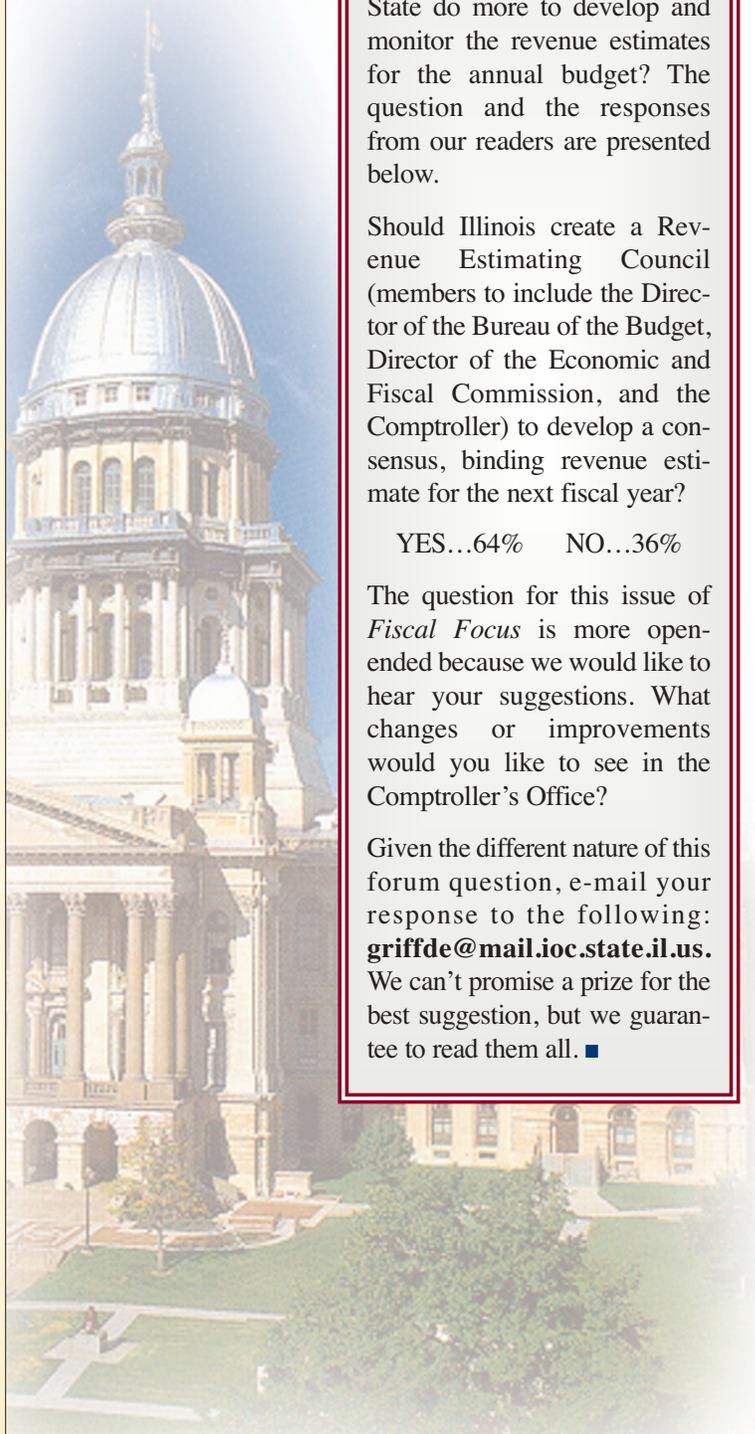
Our last question concerned one of the issues in the Comptroller's Agenda for Financial Stability. Namely, should the State do more to develop and monitor the revenue estimates for the annual budget? The question and the responses from our readers are presented below.

Should Illinois create a Revenue Estimating Council (members to include the Director of the Bureau of the Budget, Director of the Economic and Fiscal Commission, and the Comptroller) to develop a consensus, binding revenue estimate for the next fiscal year?

YES...64% NO...36%

The question for this issue of *Fiscal Focus* is more open-ended because we would like to hear your suggestions. What changes or improvements would you like to see in the Comptroller's Office?

Given the different nature of this forum question, e-mail your response to the following: [griffde@mail.ioc.state.il.us](mailto:griffde@mail.ioc.state.il.us). We can't promise a prize for the best suggestion, but we guarantee to read them all. ■



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## Local Government Line concluded from page 6

nates more than 50 percent of the form that larger governments use when providing financial data.

Comptroller Hynes has collaborated with the **U.S. Census Bureau** to develop an information-sharing database to eliminate duplicative financial reporting to the Local Government Division and to the Census Bureau. Additionally, this information sharing partnership has allowed the Comptroller's Office to identify and improve the quality of its Local Government Registry through the identification of more than 300 unregistered units of local government in the state.

Since taking office in 1999, Comptroller Hynes has implemented dramatic improvements to the **Local Government Website**. In an effort to encourage more active use by local officials, accounting professionals and the public, users can log on to the website, review reports, print AFRs, and view various local government databases. The following details some of the improvements:

- On-line training conference registration and information
- Local Government Financial Databases Fiscal Year 1995 – Current
- Fiscal Year 1998 - 2000 Fiscal Responsibility Report Card and Data Summaries

- Downloadable Annual Financial Reports and Support Documents
- Local Government Division Contact Information
- Access to Comptroller Connect Internet Filing
- Access to Local Government Reporting Requirements (Statutory References)
- Immediate access to local governments annual financial data as submitted on the AFR (Fiscal Year 2000 and 2001)
- Access to statutes, published reports, help documents and forms to comply with all local government legal requirements as they relate to the Comptroller's Office

# counties townships municipalities special purpose governments

In an effort to increase local governments' understanding of their current financial condition, Comptroller Hynes further developed the Fiscal Responsibility Report Card to include **Individual Data**

**Summaries** for all local governments. These data summaries allow for a comparative analysis of an individual local government's finances with statewide averages of like units of government (e.g., municipalities with populations over 25,000). Averages, medians, and the reported amounts are provided on the data summary for the local government's revenues, expenditures, fund balances, and debt.

A partnership between the Office of the Comptroller and the Township Officials of Illinois designed to inform, educate, train and assist local township officials about surplus fund balances resulted in three Illi-

nois townships giving an estimated \$435,000 in surplus money back to taxpayers and 54 townships reducing the amount they sought to collect from the public by almost \$1 million. The research conducted through this project found that 378 of the state's 1,443 townships had fund balances in fiscal year 2000 equal to more than two years of expendi-

tures. These findings resulted in approximately 300 townships participating in this unprecedented initiative, leading to improved annual financial reporting, reductions of levies, taxpayer refunds and one-time programmatic expenditures. ■

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## Cemetery Care Corner concluded from page 12

to make sure that sellers are licensed by his office, and informed that since the funeral home and cemetery are separate entities, two separate contracts will be necessary.

In an attempt to improve communication between his office and licensees, the Comptroller has introduced Electronic <e>

filing for Annual Reports. This user friendly program is now available to all cemeteries and funeral homes licensed by the Comptroller's Office. This program has undergone extensive testing to ensure that it is both accurate and secure. In addition to being a more convenient method of filing, the <e> filing system will benefit licensees by reducing copying and mailing costs, as

well as preventing financial penalties due to late filing. The Comptroller's Office will provide training sessions to assist licensees in learning the new program. In addition to its convenience, the <e> filing system will improve the processing of nearly \$1 billion in trust funds reported to the Comptroller's Office each year. ■

# Vital Statistics

**The Heartbeat of Illinois' Finance**

## **Fiscal Problems Continue**

### **Outlook Deteriorating**

Despite the one-time infusion of more than \$1 billion, the State's General Revenue Fund (GRF) is still experiencing cash flow difficulties with almost \$900 million in unpaid bills at the end of the first quarter. Without the infusion, the GRF backlog would be almost \$2 billion.

During July, the State entered into a \$700 million short-term loan to prop up the GRF, transferred \$156 million in surplus money from other funds, and transferred \$226 million from the Budget Stabilization Fund. These revenues were used to pay bills carried over from June and to relieve a backlog of Medicaid bills. After less than a week, payment delays began to accumulate again.

Revenues continue to defy expectations, remaining sluggish in the first quarter and under performing the forecasted level by \$81 million. In and of itself, this level of shortfall is not particularly alarming. However, it appears that income taxes are again trending down. This is having a negative drag on overall receipts and it appears that the gap between expected revenues and actual receipts may be widening.

### **Base Revenues Increase 4.3%**

Total base revenues in the General Funds (excluding short-term borrowing and the transfer from the Budget Stabilization Fund) totaled \$5.546 billion through the first quarter, an increase of \$227 million or 4.3%. State sources increased \$155 mil-

lion (3.5%) while federal sources were up \$72 million (7.8%). For September, base revenues fell \$73 million (state sources up \$1 million and federal sources down \$74 million).

The quarterly increase in state sources is the result of a \$200 million increase in transfers in and a \$45 million drop in cash receipts. The growth in transfers in stems from the July transfer of \$156 million from various funds as a cash infusion into the GRF. Transfers from the Gaming Fund are up \$30 million due to the riverboat tax increase.

Declining receipts were led by individual income taxes and investment income which fell \$31 million each. Inheritance tax receipts are down \$22 million while cigarette taxes are down \$7 million due to all the buying before the tax increase. Partially offsetting the declines were increases of \$28 million in sales taxes and \$15 million in insurance taxes.

Federal sources are up through the first quarter due to the surge of Medicaid payments following the short-term borrowing in July. For the year, federal sources are expected to decrease by \$183 million.

### **Expenditures Up 6.5%**

Through September, General Funds expenditures totaled \$6.454 billion, \$395 million or 6.5% above last year. With total General Funds appropriations down \$1.111 billion from last year it would appear surprising on the surface that spending is up by \$395 million.

A closer look at the pace of spending, in particular Medicaid spending through the first quarter, is revealing. Medicaid spending of \$1.681 billion is up \$435 million or 32.9% and has exhausted 34.0% of current year appropriations compared to just 23.7% in fiscal year 2002. The spike in Medicaid spending is due, in part, to a concentrated effort to dedicate short-term borrowing dollars to the backlog of Medicaid vouchers in an effort to maximize federal matching dollars returned to the General Revenue Fund.

Other areas of spending which increased over the first quarter include State Board of Education grants (up \$49 million or 5.1%), Teachers' Retirement System grants (up \$28 million or 13.7%) and higher education operations (up \$14 million or 3.1%).

Areas of spending showing declines over the first quarter include higher education grants (down \$52 million or 23.3%), Human Services grants (down \$7 million or 0.9%), all other grants (down \$164 million or 32.2%), state operations expenditures other than higher education (down \$46 million or 3.4%), transfers out (down \$55 million or 10.3%) and all other spending - which includes permanent improvements, refunds and prior year adjustments (down \$22 million or 81.5%).

Through the first quarter of fiscal year 2003, 24.0% of current year's appropriations have been expended compared to only 21.4% in fiscal year 2002. Non-Medicaid spending has used 21.2% of appropriations in 2003, slightly higher than the 20.8% expended in 2002.

*VITAL STATISTICS continued page 16*

**What Lies Ahead?**

The latest release of the Chicago Purchasing Manager's Index reports that Index fell sharply to 48.1 in September from 54.9 in August. Any reading below 50 is an indication of contracting regional activity. The current reading is of concern in that it supports the idea that the economy continues to struggle and may not be far from falling back into recession. Perhaps of even greater concern is the impact that a slowing manufacturing sector will have in Illinois both on the economy and state revenues.

Income and sales taxes are particularly vulnerable. Since corporate income taxes depend on taxable profits, any weakening in the profit outlook is troubling. Since corporate estimated payments continue to slide, it is increasingly clear that businesses do not expect the profit picture to improve soon.

Personal income taxes have three components: estimated payments (based on non-wage income such as capital gains and interest earnings); withholdings (based on employment and wages); and final payments (reconciliation between what is owed and what has been paid). Estimated payments have been extremely weak for more than a year and the continued weakness in the stock markets indicates that this component is not likely to add much growth to

income tax receipts in the near future. Withholdings have also been weak due to falling employment levels, and until employment reaches pre-recession levels, this component is not likely to add much growth. Weakness in both estimated payments and withholdings, coupled with the poor near-term employment outlook, make it look more and more likely that personal income tax growth will be minimal this year.

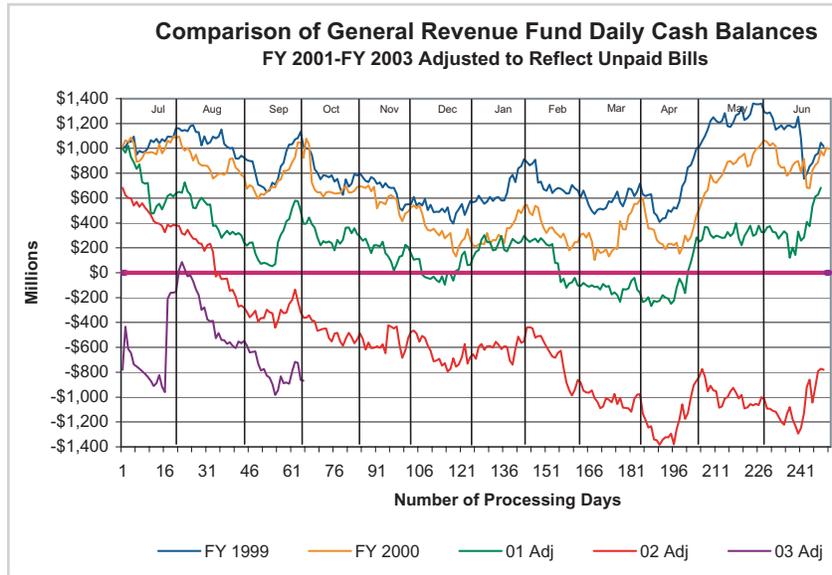
Sales tax receipts are related to consumer spending which is influenced by income

including the one-time infusion of revenues from interfund transfers. Although first quarter revenues were up 4.3%, that increase includes a 7.8% jump in federal receipts due to the surge in Medicaid payments. Through September, cash receipts from state sources are down 1.1% compared to projected annual growth of 4.8%. This means that cash receipts will have to increase 6.6% to meet the current estimate.

In order to attain the current revenue estimate for income taxes, individual income taxes will have to grow 6.9% and corporate at 4.7%. Sales taxes would have to increase at 7.7% and investment income at 81.4%.

While there is still reason to believe that economic recovery will begin this fiscal year, there does not appear to be any reason to believe that recovery will generate the magnitude of economic activity necessary to reach these growth rates.

As a closing note, the books have been closed on fiscal year 2002. The final results indicate that the State set two new General Funds records - the largest amount of lapse period spending (\$1.476 billion) and the lowest budgetary balance (negative \$1.220 billion). This means that \$1.220 billion of fiscal year 2003 revenues were used to pay 2002 bills. ■



(or potential income). While there have been times when sales taxes have grown slightly faster than income taxes in the past, minimal growth in income taxes is not likely to be accompanied by strong growth in sales tax revenues.

The budgeted revenue forecast was predicated on base revenue growth of 4.3%,

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

	July 2001	July 2002	Change From Prior Year	
			\$	%
<b>Total General Funds</b>				
Available Balance	\$ 1,126	\$ 256	\$ (870)	(77.3) %
Revenues	1,590	2,966	1,376	86.5
Expenditures	1,800	2,749	949	52.7
Ending Balance	\$ 916	\$ 473	\$ (443)	(48.4) %
<b>General Revenue Fund</b>				
Available Balance	\$ 683	\$ 0	\$ (683)	(100.0) %
Revenues	1,336	2,681	1,345	100.7
Expenditures	1,701	2,619	918	54.0
Ending Balance	\$ 318	\$ 62	\$ (256)	(80.5) %
<b>Common School Special Account Fund</b>				
Available Balance	\$ 66	\$ 37	\$ (29)	(43.9) %
Revenues	128	131	3	2.3
Expenditures	5	12	7	140.0
Ending Balance	\$ 189	\$ 156	\$ (33)	(17.5) %
<b>Education Assistance Fund</b>				
Available Balance	\$ 355	\$ 198	\$ (157)	(44.2) %
Revenues	77	88	11	14.3
Expenditures	47	78	31	66.0
Ending Balance	\$ 385	\$ 208	\$ (177)	(46.0) %
<b>Common School Fund</b>				
Available Balance	\$ 21	\$ 21	\$ 0	0.0 %
Revenues	55	78	23	41.8
Expenditures	52	52	0	0.0
Ending Balance	\$ 24	\$ 47	\$ 23	95.8 %

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)

	July 2001	July 2002	Change From Prior Year	
			\$	%
<b>Revenues:</b>				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 486	\$ 493	\$ 7	1.4 %
Corporate	23	26	3	13.0
Total, Income Taxes	\$ 509	\$ 519	\$ 10	2.0 %
Sales Taxes	513	529	16	3.1
Other Sources:				
Public Utility Taxes	62	76	14	22.6
Cigarette Taxes	33	33	0	0.0
Inheritance Tax (gross)	22	28	6	27.3
Liquor Gallonage Taxes	10	11	1	10.0
Insurance Taxes and Fees	2	2	0	0.0
Corporation Franchise Tax and Fees	7	9	2	28.6
Investment Income	18	6	(12)	(66.7)
Cook County IGT	54	54	0	0.0
Other	14	19	5	35.7
Total, Other Sources	\$ 222	\$ 238	\$ 16	7.2 %
Total, Cash Receipts	\$ 1,244	\$ 1,286	\$ 42	3.4 %
Transfers In:				
Lottery Fund	\$ 30	\$ 44	\$ 14	46.7 %
State Gaming Fund	40	50	10	25.0
Other Funds	19	174	155	815.8
Total, Transfers In	\$ 89	\$ 268	\$ 179	201.1 %
Total, State Sources	\$ 1,333	\$ 1,554	\$ 221	16.6 %
Federal Sources:				
Cash Receipts	\$ 257	\$ 486	\$ 229	89.1 %
Transfers In	0	0	0	0.0
Total, Federal Sources	\$ 257	\$ 486	\$ 229	89.1 %
<b>Total, Base Revenues</b>	<b>\$ 1,590</b>	<b>\$ 2,040</b>	<b>\$ 450</b>	<b>28.3 %</b>
Short-Term Borrowing	0	700	700	N/A
Transfer from Budget	0	226	226	N/A
Stabilization Fund	0	226	226	N/A
Total, Revenues	\$ 1,590	\$ 2,966	\$ 1,376	86.5 %

**GENERAL FUNDS ANALYSIS OF EXPENDITURES**  
(Dollars in Millions)

	July 2001	July 2002	Change From Prior Year	
			\$	%
<b>Expenditures:</b>				
Awards and Grants:				
Public Aid	\$ 444	\$ 733	\$ 289	65.1 %
Elem. & Sec. Education:				
State Board of Education	47	54	7	14.9
Teachers Retirement	68	77	9	13.2
Total, Elem. & Sec. Education	\$ 115	\$ 131	\$ 16	13.9 %
Human Services	306	254	(52)	(17.0)
Higher Education	18	10	(8)	(44.4)
All Other Grants	163	80	(83)	(50.9)
Total, Awards and Grants	\$ 1,046	\$ 1,208	\$ 162	15.5 %
Operations:				
Other Agencies	\$ 398	\$ 413	\$ 15	3.8 %
Higher Education	109	140	31	28.4
Total, Operations	\$ 507	\$ 553	\$ 46	9.1 %
Transfers Out	\$ 250	\$ 238	\$ (12)	(4.8) %
All Other	\$ 5	\$ 4	\$ (1)	(20.0) %
Vouchers Payable Adjustment	\$ (8)	\$ 746	\$ 754	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,800</b>	<b>\$ 2,749</b>	<b>\$ 949</b>	<b>52.7 %</b>
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	\$ 1,800	\$ 2,749	\$ 949	52.7 %

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

	July 2001	July 2002	Change From Prior Year	
			\$	%
<b>Personal Services:</b>				
Regular Positions	\$ 202	\$ 202	\$ 0	0.0 %
Other Personal Services	22	22	0	0.0
Total, Personal Services	\$ 224	\$ 224	\$ 0	0.0 %
Contribution Retirement	42	44	2	4.8
Contribution Social Security	15	15	0	0.0
Contribution Group Insurance	25	40	15	60.0
Contractual Services	42	39	(3)	(7.1)
Travel	2	2	0	0.0
Commodities	9	12	3	33.3
Printing	1	1	0	0.0
Equipment	4	6	2	50.0
Electronic Data Processing	6	9	3	50.0
Telecommunications	4	4	0	0.0
Automotive Equipment	2	2	0	0.0
Other Operations	131	155	24	18.3
Total, Operations	\$ 507	\$ 553	\$ 46	9.1 %

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

	July 2001	July 2002	Change From Prior Year	
			\$	%
<b>State Board of Education:</b>				
General State Aid	\$ 6	\$ 22	\$ 16	266.7 %
All Other	41	32	(9)	(22.0)
Public Aid	444	733	289	65.1
Human Services	306	254	(52)	(17.0)
Higher Education:				
Student Assistance Commission	2	3	1	50.0
Community College Board	6	0	(6)	(100.0)
Other	10	7	(3)	(30.0)
Teacher's Retirement	68	77	9	13.2
Children and Family Services	37	30	(7)	(18.9)
Aging	20	16	(4)	(20.0)
Revenue	19	1	(18)	(94.7)
All Other	87	33	(54)	(62.1)
Total, Awards and Grants	\$ 1,046	\$ 1,208	\$ 162	15.5 %

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

	Two Months			
	Aug. 2002	FY 2003	Change From Prior Year	
			\$	%
<b>Total General Funds</b>				
Available Balance	\$ 473	\$ 256	\$ (870)	(77.3) %
Revenues	1,604	4,570	1,226	36.7
Expenditures	1,741	4,490	505	12.7
Ending Balance	\$ 336	\$ 336	\$ (149)	(30.7) %
<b>General Revenue Fund</b>				
Available Balance	\$ 62	\$ 0	\$ (683)	(100.0) %
Revenues	1,329	4,010	1,198	42.6
Expenditures	1,351	3,970	518	15.0
Ending Balance	\$ 40	\$ 40	\$ (3)	(7.0) %
<b>Common School Special Account Fund</b>				
Available Balance	\$ 156	\$ 37	\$ (29)	(43.9) %
Revenues	131	262	4	1.6
Expenditures	87	99	(17)	(14.7)
Ending Balance	\$ 200	\$ 200	\$ (8)	(3.8) %
<b>Education Assistance Fund</b>				
Available Balance	\$ 208	\$ 198	\$ (157)	(44.2) %
Revenues	88	177	20	12.7
Expenditures	212	291	(8)	(2.7)
Ending Balance	\$ 84	\$ 84	\$ (129)	(60.6) %
<b>Common School Fund</b>				
Available Balance	\$ 47	\$ 21	\$ 0	0.0 %
Revenues	143	221	(12)	(5.2)
Expenditures	177	229	(3)	(1.3)
Ending Balance	\$ 13	\$ 13	\$ (9)	(40.9) %

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)

	Two Months			
	Aug. 2002	FY 2003	Change From Prior Year	
			\$	%
<b>Revenues:</b>				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 514	\$ 1,008	\$ (13)	(1.3) %
Corporate	11	36	2	5.9
Total, Income Taxes	\$ 525	\$ 1,044	\$ (11)	(1.0) %
Sales Taxes	525	1,054	16	1.5
Other Sources:				
Public Utility Taxes	84	160	(5)	(3.0)
Cigarette Taxes	33	67	0	0.0
Inheritance Tax (gross)	28	55	(10)	(15.4)
Liquor Gallonage Taxes	10	22	3	15.8
Insurance Taxes and Fees	7	9	3	50.0
Corporation Franchise Tax and Fees	13	21	2	10.5
Investment Income	8	14	(24)	(63.2)
Cook County IGT	0	54	0	0.0
Other	20	39	0	0.0
Total, Other Sources	\$ 203	\$ 441	\$ (31)	(6.6) %
Total, Cash Receipts	\$ 1,253	\$ 2,539	\$ (26)	(1.0) %
Transfers In:				
Lottery Fund	\$ 35	\$ 79	\$ 6	8.2 %
State Gaming Fund	50	100	20	25.0
Other Funds	21	195	155	387.5
Total, Transfers In	\$ 106	\$ 374	\$ 181	93.8 %
Total, State Sources	\$ 1,359	\$ 2,913	\$ 155	5.6 %
Federal Sources:				
Cash Receipts	\$ 240	\$ 726	\$ 154	26.9 %
Transfers In	5	5	(9)	(64.3)
Total, Federal Sources	\$ 245	\$ 731	\$ 145	24.7 %
<b>Total, Base Revenues</b>	<b>\$ 1,604</b>	<b>\$ 3,644</b>	<b>\$ 300</b>	<b>9.0 %</b>
Short-Term Borrowing	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	226	226	N/A
Total, Revenues	\$ 1,604	\$ 4,570	\$ 1,226	36.7 %

## GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Two Months			
	Aug. 2002	FY 2003	Change From Prior Year	
			\$	%
<b>Expenditures:</b>				
Awards and Grants:				
Public Aid	\$ 418	\$ 1,151	\$ 261	29.3 %
Elem. & Sec. Education:				
State Board of Education	495	549	75	15.8
Teachers Retirement	78	155	18	13.1
Total, Elem. & Sec. Education	\$ 573	\$ 704	\$ 93	15.2 %
Human Services	278	531	(65)	(10.9)
Higher Education	95	105	(100)	(48.8)
All Other Grants	159	239	(138)	(36.6)
Total, Awards and Grants	\$ 1,523	\$ 2,730	\$ 51	1.9 %
Operations:				
Other Agencies	\$ 489	\$ 902	\$ (30)	(3.2) %
Higher Education	150	291	10	3.6
Total, Operations	\$ 639	\$ 1,193	\$ (20)	(1.6) %
Transfers Out	\$ 105	\$ 343	\$ (44)	(11.4) %
All Other	\$ 4	\$ 7	\$ (21)	(75.0) %
Vouchers Payable Adjustment	\$ (530)	\$ 217	\$ 539	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,741</b>	<b>\$ 4,490</b>	<b>\$ 505</b>	<b>12.7 %</b>
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	\$ 1,741	\$ 4,490	\$ 505	12.7 %

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

	Two Months			
	Aug. 2002	FY 2003	Change From Prior Year	
			\$	%
<b>Personal Services:</b>				
Regular Positions	\$ 206	\$ 408	\$ (4)	(1.0) %
Other Personal Services	21	44	0	0.0
Total, Personal Services	\$ 227	\$ 452	\$ (4)	(0.9) %
Contribution Retirement	45	89	4	4.7
Contribution Social Security	15	30	0	0.0
Contribution Group Insurance	66	107	17	18.9
Contractual Services	70	109	0	0.0
Travel	2	3	(2)	(40.0)
Commodities	11	23	(2)	(8.0)
Printing	1	2	0	0.0
Equipment	5	11	(2)	(15.4)
Electronic Data Processing	9	18	5	38.5
Telecommunications	8	12	1	9.1
Automotive Equipment	2	4	0	0.0
Other Operations	178	333	(37)	(10.0)
Total, Operations	\$ 639	\$ 1,193	\$ (20)	(1.6) %

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

	Two Months			
	Aug. 2002	FY 2003	Change From Prior Year	
			\$	%
<b>State Board of Education:</b>				
General State Aid	\$ 260	\$ 283	\$ 8	2.9 %
All Other	235	266	67	33.7
Public Aid	418	1,151	261	29.3
Human Services	278	531	(65)	(10.9)
Higher Education:				
Student Assistance Commission	4	7	(80)	(92.0)
Community College Board	87	87	(11)	(11.2)
Other	4	11	(9)	(45.0)
Teacher's Retirement	78	155	18	13.1
Children and Family Services	73	103	(12)	(10.4)
Aging	20	37	(3)	(7.5)
Revenue	0	1	(33)	(97.1)
All Other	66	98	(90)	(47.9)
Total, Awards and Grants	\$ 1,523	\$ 2,730	\$ 51	1.9 %

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

	Sept. 2002	Three Months			
		FY 2003	Change From Prior Year		
			\$	%	
<b>Total General Funds</b>					
Available Balance	\$ 336	\$ 256	\$ (870)	(77.3)	%
Revenues	1,902	6,472	1,153	21.7	
Expenditures	1,964	6,454	395	6.5	
Ending Balance	\$ 274	\$ 274	\$ (112)	(29.0)	%
<b>General Revenue Fund</b>					
Available Balance	\$ 40	\$ 0	\$ (683)	(100.0)	%
Revenues	1,603	5,613	1,121	25.0	
Expenditures	1,617	5,587	420	8.1	
Ending Balance	\$ 26	\$ 26	\$ 18	225.0	%
<b>Common School Special Account Fund</b>					
Available Balance	\$ 200	\$ 37	\$ (29)	(43.9)	%
Revenues	126	388	7	1.8	
Expenditures	134	233	(4)	(1.7)	
Ending Balance	\$ 192	\$ 192	\$ (18)	(8.6)	%
<b>Education Assistance Fund</b>					
Available Balance	\$ 84	\$ 198	\$ (157)	(44.2)	%
Revenues	115	292	28	10.6	
Expenditures	170	461	(17)	(3.6)	
Ending Balance	\$ 29	\$ 29	\$ (112)	(79.4)	%
<b>Common School Fund</b>					
Available Balance	\$ 13	\$ 21	\$ 0	0.0	%
Revenues	190	412	(7)	(1.7)	
Expenditures	176	406	(7)	(1.7)	
Ending Balance	\$ 27	\$ 27	\$ 0	0.0	%

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)

	Sept. 2002	Three Months			
		FY 2003	Change From Prior Year		
			\$	%	
<b>Revenues:</b>					
State Sources:					
Cash Receipts:					
Income Taxes:					
Individual	\$ 641	\$ 1,648	\$ (31)	(1.8)	%
Corporate	120	156	(3)	(1.9)	
Total, Income Taxes	\$ 761	\$ 1,804	\$ (34)	(1.8)	%
Sales Taxes	507	1,561	28	1.8	
Other Sources:					
Public Utility Taxes	72	232	(1)	(0.4)	
Cigarette Taxes	26	93	(7)	(7.0)	
Inheritance Tax (gross)	20	76	(22)	(22.4)	
Liquor Gallonage Taxes	10	31	6	24.0	
Insurance Taxes and Fees	54	63	15	31.3	
Corporation Franchise Tax and Fees	12	34	2	6.3	
Investment Income	5	19	(31)	(62.0)	
Cook County IGT	23	77	0	0.0	
Other	17	56	(1)	(1.8)	
Total, Other Sources	\$ 239	\$ 681	\$ (39)	(5.4)	%
Total, Cash Receipts	\$ 1,507	\$ 4,046	\$ (45)	(1.1)	%
Transfers In:					
Lottery Fund	\$ 40	\$ 119	\$ 1	0.8	%
State Gaming Fund	60	160	30	23.1	
Other Funds	30	225	169	301.8	
Total, Transfers In	\$ 130	\$ 504	\$ 200	65.8	%
Total, State Sources	\$ 1,637	\$ 4,550	\$ 155	3.5	%
Federal Sources:					
Cash Receipts	\$ 260	\$ 986	\$ 84	9.3	%
Transfers In	5	10	(12)	(54.5)	
Total, Federal Sources	\$ 265	\$ 996	\$ 72	7.8	%
<b>Total, Base Revenues</b>	\$ 1,902	\$ 5,546	\$ 227	4.3	%
Short-Term Borrowing	0	700	700	N/A	
Transfer from Budget Stabilization Fund	0	226	226	N/A	
Total, Revenues	\$ 1,902	\$ 6,472	\$ 1,153	21.7	%

## GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Sept. 2002	FY 2003	Three Months		
			Change From Prior Year		
			\$	%	
<b>Expenditures:</b>					
Awards and Grants:					
Public Aid	\$ 543	\$ 1,694	\$ 419	32.9	%
Elem. & Sec. Education:					
State Board of Education	467	1,015	49	5.1	
Teachers Retirement	78	233	28	13.7	
Total, Elem. & Sec. Education	\$ 545	\$ 1,248	\$ 77	6.6	%
Human Services	260	792	(7)	(0.9)	
Higher Education	66	171	(52)	(23.3)	
All Other Grants	107	346	(164)	(32.2)	
Total, Awards and Grants	\$ 1,521	\$ 4,251	\$ 273	6.9	%
Operations:					
Other Agencies	\$ 421	\$ 1,324	\$ (46)	(3.4)	%
Higher Education	178	468	14	3.1	
Total, Operations	\$ 599	\$ 1,792	\$ (32)	(1.8)	%
Transfers Out	\$ 134	\$ 477	\$ (55)	(10.3)	%
All Other	\$ (2)	\$ 5	\$ (22)	(81.5)	%
Vouchers Payable Adjustment	\$ (288)	\$ (71)	\$ 231	N/A	
<b>Total, Base Expenditures</b>	\$ 1,964	\$ 6,454	\$ 395	6.5	%
Transfers to Repay Short-Term Borrowing	0	0	0	0.0	
Total, Expenditures	\$ 1,964	\$ 6,454	\$ 395	6.5	%

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

	Sept. 2002	FY 2003	Three Months		
			Change From Prior Year		
			\$	%	
<b>Personal Services:</b>					
Regular Positions	\$ 201	\$ 609	\$ (3)	(0.5)	%
Other Personal Services	21	65	0	0.0	
Total, Personal Services	\$ 222	\$ 674	\$ (3)	(0.4)	%
Contribution Retirement	44	133	7	5.6	
Contribution Social Security	14	44	0	0.0	
Contribution Group Insurance	61	168	8	5.0	
Contractual Services	59	168	6	3.7	
Travel	2	5	(1)	(16.7)	
Commodities	7	30	(7)	(18.9)	
Printing	0	3	0	0.0	
Equipment	2	13	(4)	(23.5)	
Electronic Data Processing	3	21	4	23.5	
Telecommunications	3	15	2	15.4	
Automotive Equipment	2	5	0	0.0	
Other Operations	180	513	(44)	(7.9)	
Total, Operations	\$ 599	\$ 1,792	\$ (32)	(1.8)	%

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

	Sept. 2002	FY 2003	Three Months		
			Change From Prior Year		
			\$	%	
<b>State Board of Education:</b>					
General State Aid	\$ 260	\$ 542	\$ (2)	(0.4)	%
All Other	207	473	51	12.1	
Public Aid	543	1,694	419	32.9	
Human Services	260	792	(7)	(0.9)	
<b>Higher Education:</b>					
Student Assistance Commission	55	62	(38)	(38.0)	
Community College Board	6	93	(6)	(6.1)	
Other	5	16	(8)	(33.3)	
Teacher's Retirement	78	233	28	13.7	
Children and Family Services	59	162	(25)	(13.4)	
Aging Revenue	18	55	(4)	(6.8)	
All Other	0	2	(46)	(95.8)	
Total, Awards and Grants	\$ 1,521	\$ 4,251	\$ 273	6.9	%

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