

Comptroller's Quarterly

LESLIE GEISSLER MUNGER, COMPTROLLER

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FISCAL YEAR 2016 FIRST QUARTER REVENUES DROP

Illinois was without a complete budget for the entirety of the first quarter of fiscal year 2016. In the absence of a budget state agencies submitted vouchers to the Illinois Office of the Comptroller (IOC) under authority granted to them through court orders, consent decrees, and state and federal laws providing for the continuation of services. Many of these orders and decrees have called on the state to maintain compliance. To do so many agencies submitted vouchers at Fiscal Year 2015 appropriation levels.

Fiscal year 2015 appropriations were set assuming revenues as they were at the start of that budget year. Since then, base revenues have fallen due to pre-established cuts to the State's corporate and individual income tax rates. In the spring of 2015, the General Assembly and Governor approved a package of fund sweeps and interfund borrowing measures to accommodate the decline in income tax receipts. Funds subjected to borrowing must be reimbursed by Jan. 1, 2018.

Pending the enactment of a fiscal year 2016 budget or other

significant changes, the IOC expects the General Funds backlog, an estimated \$6.655 billion when invoices held at state agencies are included, to grow in the second quarter as vouchers permitted by the courts continue to come in at amounts similar to fiscal year 2015 and income taxes are collected at the lower rate.

Similarly, payment delays are expected to increase in the second quarter as revenues remain well below their mark from the previous year and as the IOC gives priority to payments prescribed by law, such as debt service, payroll, and general state aid to primary and secondary education.

It is worth noting that the backlog does not consider obligations that have not been authorized by the courts or law but would otherwise likely be included in a budget, such as the employer contribution to the State's group health insurance, higher education disbursements, and a number of state funded grant programs.

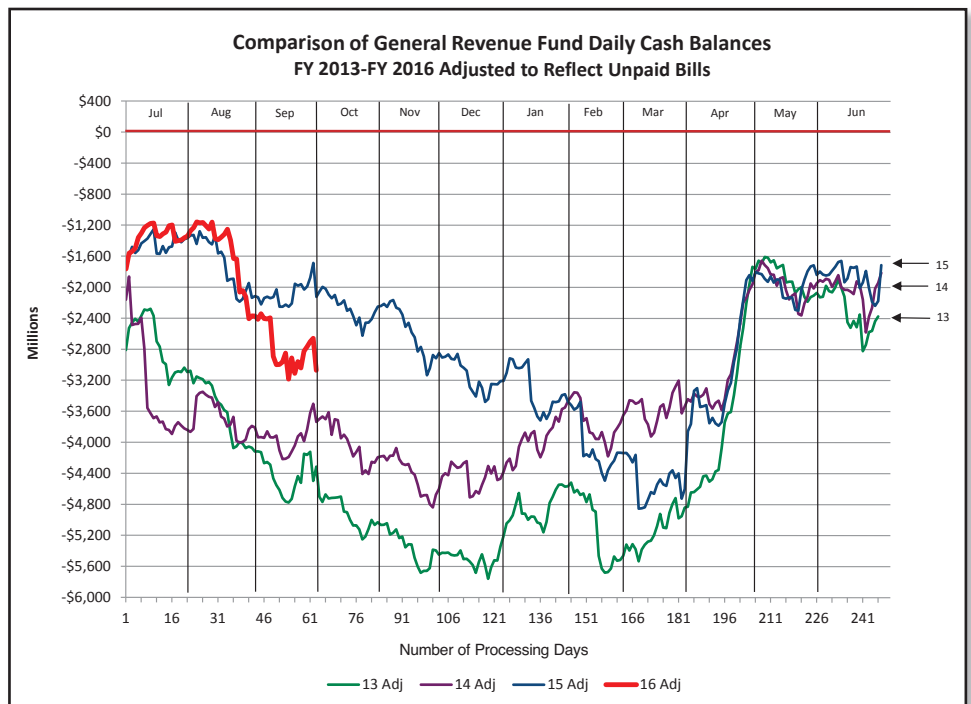
Furthermore, the absence of a fiscal year 2016 budget will likely complicate the preparation of the fiscal year 2017 budget.

Quarterly Highlights

More than \$3.655 billion in General Funds payables were outstanding at the IOC by the end of the first quarter – an increase of more than \$825 million from three months ago, and up by \$938 million in comparison to the first quarter of fiscal year 2015.

Agencies reported about \$752 million in General Funds lapse period vouchers this year, which is a decrease of \$874 million from the fiscal year 2014 lapse period. Though Medicaid vouchers could still be reported before Oct. 31, the IOC does not anticipate this will happen. By the end of the first quarter the only lapse period transactions that remained was prompt payment interest and statutory transfers out of the General Revenue Fund.

Making lapse period payments while simultaneously issuing high priority Fiscal Year



2016 payments lead to payment delays. This is largely attributable to a continuation of less revenue than what was brought in a year ago.

A number of mechanisms have allowed agencies to voucher payments in the absence of a state budget, but the decline in revenue was greater than the decrease in vouchers sent to the IOC. This resulted in a larger negative General Revenue Fund balance. As of Sept. 30, 2015, the General Revenue Fund balance, adjusted to reflect outstanding bills, was - \$3.013 billion.

Base Revenues

Individual income tax rates declined from 5.0 percent to 3.75 percent and the corporate rate decreased from 7.0 percent to 5.25 percent at the beginning of the calendar year; this resulted in a decline in income tax revenues. Total General Funds revenues experienced a significant decline in the first quarter and more than offset the growth in transfers in, sales taxes and federal sources. General Funds total base revenue in the first quarter for fiscal year 2016 decreased \$987 million, or 12.2 percent. Factors impacting the state's base revenues so far this year include:

- **INCOME TAX:** Individual income tax receipts fell \$829 million or 22.5 percent through three months of fiscal year 2016, while corporate income tax revenues decreased by \$138 million or 24.5 percent. It should be noted that \$207 million of income tax revenues were deposited into the new funds dedicated to education and human services programs.
- **SALES TAX:** For the first quarter, sales tax revenues increased by \$18 million or 0.9 percent.
- **TRANSFERS:** Transfers in increased \$57 million in three months of fiscal year 2016. Transfers from the Income Tax

Refund Fund were up \$14 million. Also, transfers from the Capital Projects Fund increased \$60 million. Lottery Fund transfers were down \$9 million and riverboat gambling transfers decreased \$6 million. It is also important to note that transfers from the Budget Stabilization are excluded from base revenue analysis.

- **FEDERAL REVENUE:** Federal revenues increased \$50 million, or 9.9 percent, so far in fiscal year 2016. The growth is due to an increase in the payment from the General Funds of Medicaid bills eligible for reimbursement.
- **OTHER RECEIPTS:** All other state receipts are down \$145 million, or 17.3 percent from the previous fiscal year. Specifically, court settlements by the Attorney General's office declined \$117 and public utility taxes fell \$25 million.

Base Expenditures

General Funds base spending – payments released by the IOC – decreased by \$766 million, or 9.2 percent, in the first quarter of fiscal year 2016. Transfers out decreased by \$265 million while warrants issued, including prior year adjustments, declined by \$501 million. However, vouchers presented by the state agencies were down \$213 million, or 2.9 percent, as some agency spending declined because of the budget impasse.

- **SOCIAL SERVICES:** Vouchers presented by the Department of Healthcare and Family Services (primarily for Medicaid spending) were up \$881 million, or 74.5 percent, in three months. Vouchers presented by the Department of Human Services were down \$28 million, or 2.8 percent, and Department of Children and Family Services expenditures were down \$18 million (8.9 percent). Department on Aging vouchers were down \$179 million

(78.2 percent) for the first quarter.

- **EDUCATION:** Vouchers presented by the State Board of Education were up \$24 million, or 1.7 percent for the quarter. General Funds appropriations for General State Aid for schools decreased this fiscal year, but \$446 million was appropriated from the new fund that receives a portion of the income tax. Vouchers presented by higher education agencies, excluding the retirement system, were down \$452 million or 98.0 percent.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$80 million. The University Retirement System expenditures increased \$91 million. Vouchers from the State Employees Retirement System were up \$86 million.
- **ALL OTHER:** Central Management Services had the largest decrease among the major agencies of \$470 million since there is no appropriation to fund state employee health insurance bills this year. Department of Corrections spending decreased \$63 million, or 17.9 percent, through September.
- **TRANSFERS OUT:** Transfers out for the first quarter of fiscal year 2016 decreased by \$265 million, or 16.3 percent, when compared to last year. Accounting for most of the decline, transfers to the Healthcare Provider Relief Fund were down \$141 million. Also, the IOC was still holding transfers from the prior year (fiscal year 2015) while this time last year all prior year transfers were completed. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2014	2015		FY 2015	FY 2016	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 228	\$ 164	\$ (64)	\$ 74	\$ 621	\$ 547	739.2 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,512	\$ 1,198	\$ (314)	\$ 3,681	\$ 2,852	\$ (829)	(22.5) %
Corporate	452	333	(119)	564	426	(138)	(24.5)
Total, Income Taxes	1,964	1,531	(433)	4,245	3,278	(967)	(22.8)
Sales Taxes	680	686	6	2,034	2,052	18	0.9
Other Sources:							
Public Utility Taxes	83	79	(4)	236	211	(25)	(10.6)
Cigarette Taxes	29	30	1	88	88	0	0.0
Inheritance Tax (gross)	19	31	12	84	77	(7)	(8.3)
Liquor Gallonage Taxes	14	13	(1)	44	44	0	0.0
Insurance Tax and Fees	68	61	(7)	92	92	0	0.0
Corporation Franchise Tax and Fees	23	28	5	52	58	6	11.5
Investment Income	3	1	(2)	7	4	(3)	(42.9)
Cook County IGT	0	0	0	0	0	0	0.0
Other	34	36	2	235	119	(116)	(49.4)
Total, Other Sources	273	279	6	838	693	(145)	(17.3)
Total, Cash Receipts	\$ 2,917	\$ 2,496	\$ (421)	\$ 7,117	\$ 6,023	\$ (1,094)	(15.4) %
Transfers In:							
Lottery Fund	\$ 57	\$ 56	\$ (1)	\$ 145	\$ 136	\$ (9)	(6.2) %
State Gaming Fund	43	23	(20)	86	80	(6)	(7.0)
Other Funds	34	53	19	208	280	72	34.6
Total, Transfers In	\$ 134	\$ 132	\$ (2)	\$ 439	\$ 496	\$ 57	13.0 %
Total, State Sources	\$ 3,051	\$ 2,628	\$ (423)	\$ 7,556	\$ 6,519	\$ (1,037)	(13.7) %
Federal Sources	\$ 120	\$ 161	\$ 41	\$ 503	\$ 553	\$ 50	9.9 %
Total, Base Revenues	\$ 3,171	\$ 2,789	\$ (382)	\$ 8,059	\$ 7,072	\$ (987)	(12.2) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	125	(150)	(54.5)
Total, Revenues	\$ 3,171	\$ 2,789	\$ (382)	\$ 8,334	\$ 7,197	\$ (1,137)	(13.6) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 326	\$ 842	\$ 516	\$ 1,182	\$ 2,063	\$ 881	74.5 %
State Board of Education	870	891	21	1,413	1,437	24	1.7
Human Services	233	338	105	1,010	982	(28)	(2.8)
Teachers Retirement	298	321	23	898	978	80	8.9
University Retirement System	129	134	5	311	402	91	29.3
All Other Higher Education	151	2	(149)	461	9	(452)	(98.0)
Corrections	90	82	(8)	352	289	(63)	(17.9)
State Employees Retirement System	95	149	54	284	370	86	30.3
Central Management Services	131	1	(130)	477	7	(470)	(98.5)
Children and Family Services	26	38	12	202	184	(18)	(8.9)
Aging	80	2	(78)	229	50	(179)	(78.2)
State Police	17	13	(4)	102	63	(39)	(38.2)
All Other	140	107	(33)	509	383	(126)	(24.8)
Total	\$ 2,586	\$ 2,920	\$ 334	\$ 7,430	\$ 7,217	\$ (213)	(2.9) %
Regular Transfers Out	656	610	(46)	1,625	1,360	(265)	(16.3)
Prior Year Adjustments	(2)	0	2	(4)	(3)	1	(25.0)
Vouchers Payable Adjustment	44	(868)	(912)	(758)	(1,047)	(289)	N/A
Total, Base Expenditures	\$ 3,284	\$ 2,662	\$ (622)	\$ 8,293	\$ 7,527	\$ (766)	(9.2) %
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,284	2,662	(622)	8,293	7,527	(766)	(9.2)
AVAILABLE CASH BALANCE, ENDING	\$ 115	\$ 291	\$ 176	\$ 115	\$ 291	\$ 176	153.0 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2014	2015		FY 2015	FY 2016	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 88	\$ 21	\$ (67)	\$ 12	\$ 490	\$ 478	3,983.3 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,401	\$ 1,106	\$ (295)	\$ 3,412	\$ 2,629	\$ (783)	(22.9) %
Corporate	419	308	(111)	523	395	(128)	(24.5)
Total, Income Taxes	1,820	1,414	(406)	3,935	3,024	(911)	(23.2)
Sales Taxes	511	516	5	1,529	1,542	13	0.9
Other Sources:							
Public Utility Taxes	75	72	(3)	215	190	(25)	(11.6)
Cigarette Taxes	21	21	0	66	64	(2)	(3.0)
Inheritance Tax (gross)	19	31	12	83	77	(6)	(7.2)
Liquor Gallonage Taxes	14	13	(1)	44	44	0	0.0
Insurance Tax and Fees	68	61	(7)	92	92	0	0.0
Corporation Franchise Tax and Fees	23	28	5	52	58	6	11.5
Investment Income	3	1	(2)	7	3	(4)	(57.1)
Cook County IGT	0	0	0	0	0	0	0.0
Other	34	36	2	234	118	(116)	(49.6)
Total, Other Sources	257	263	6	793	646	(147)	(18.5)
Total, Cash Receipts	\$ 2,588	\$ 2,193	\$ (395)	\$ 6,257	\$ 5,212	\$ (1,045)	(16.7) %
Transfers In	34	53	19	208	280	72	34.6
Total, State Sources	\$ 2,622	\$ 2,246	\$ (376)	\$ 6,465	\$ 5,492	\$ (973)	(15.1) %
Federal Sources	\$ 120	\$ 161	\$ 41	\$ 503	\$ 553	\$ 50	9.9 %
Total, Base Revenues	\$ 2,742	\$ 2,407	\$ (335)	\$ 6,968	\$ 6,045	\$ (923)	(13.2) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	125	(150)	(54.5)
Total, Revenues	\$ 2,742	\$ 2,407	\$ (335)	\$ 7,243	\$ 6,170	\$ (1,073)	(14.8) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 326	\$ 842	516	\$ 1,182	2,063	881	74.5
State Board of Education	463	475	12	594	598	4	0.7
Human Services	233	338	105	1,010	982	(28)	(2.8)
University Retirement System	129	134	5	309	402	93	30.1
All Other Higher Education	87	1	(86)	121	4	(117)	(96.7)
Corrections	90	82	(8)	352	289	(63)	(17.9)
State Employees Retirement System	95	149	54	284	370	86	30.3
Central Management Services	131	1	(130)	477	7	(470)	(98.5)
Children and Family Services	26	38	12	202	184	(18)	(8.9)
Aging	80	2	(78)	229	50	(179)	(78.2)
State Police	17	13	(4)	102	63	(39)	(38.2)
All Other	145	107	(38)	521	389	(132)	(25.3)
Total	\$ 1,822	\$ 2,182	\$ 360	\$ 5,383	\$ 5,401	\$ 18	0.3 %
Regular Transfers Out	1,113	1,096	(17)	2,614	2,295	(319)	(12.2)
Prior Year Adjustments	(2)	(1)	1	(4)	(3)	1	(25.0)
Vouchers Payable Adjustment	(107)	(980)	(873)	(742)	(1,164)	(422)	N/A
Total, Base Expenditures	\$ 2,826	\$ 2,297	\$ (529)	\$ 7,251	\$ 6,529	\$ (722)	(10.0) %
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,826	2,297	(529)	7,251	6,529	(722)	(10.0)
AVAILABLE CASH BALANCE, ENDING	\$ 4	\$ 131	\$ 127	\$ 4	\$ 131	\$ 127	3,175.0 %