

Comptroller's Quarterly

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FISCAL CRISIS WORSENS IN THIRD QUARTER

While a decline in the fiscal condition of the General Funds during the third quarter was anticipated, a significant decrease in revenue performance has exacerbated the problem. The dramatic downturn in revenues has led to an unprecedented backlog of bills being held due to the lack of cash.

General Funds revenues through the first three quarters of fiscal year 2002 were \$187 million or 1.1% below last year, including the \$226 million transfer from the Budget Stabilization Fund. Absent the infusion of rainy day dollars, General Funds "base" revenues were down \$413 million or 2.4%. Through the first half of the fiscal year, "base" revenues were down \$85 million or 0.8%. In the third quarter of fiscal year 2002, revenues declined by an additional \$328 million or 5.6%. Revenues declined in each month of the third quarter.

At the end of March the General Funds cash balance stood at \$145 million, \$140 million below last year and \$981 million lower than the balance at the beginning of the year. The dramatic drop in the General Funds cash balance was concentrated in the General Revenue Fund (the state's largest operating fund) where the balance fell from \$683 million at the start of the year to \$31 million at the end of March.

In addition, the Comptroller's Office was holding \$1.163 billion in General Revenue Fund (GRF) vouchers payable and transfers out that could not be paid due to a lack of cash. As a result, the effective GRF balance was a negative \$1.132 billion at the end of March. Over the same period last fiscal year, the GRF balance declined \$951 million from \$997 million to \$46 million. However, unpaid bills at the end of last

March totaled \$277 million, leaving an effective balance of a negative \$231 million. This year's effective cash position is \$901 million worse than last year.

The dramatic and rapid deterioration of the state's effective cash position was due mostly to an economic recession that began in the spring of 2001. That recession was exacerbated by the tragic events of September 11th. Last year, GRF cash flow difficulties began in mid-February and lasted through late April 2001. This year, cash flow problems developed in late August and are expected to last at least through the end of fiscal year 2002.

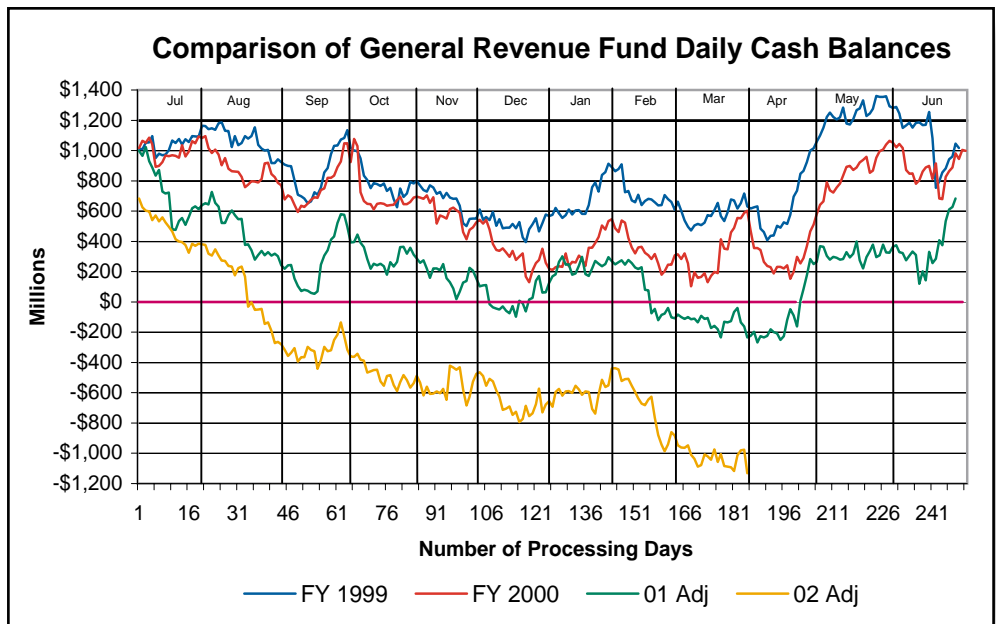
In order to alleviate at least some of the payment delays, the Comptroller ordered

the balance in the Budget Stabilization Fund transferred to the GRF. On November 14, 2001, \$226 million was transferred and paid out the same day. Under state law, the amount transferred from the Budget Stabilization Fund is effectively a loan and must be repaid by the end of the fiscal year.

Despite the transfer from the Budget Stabilization Fund, the backlog of unpaid bills has grown steadily. Payment delays reached 18 business days during December and grew to as long as 28 days during the third quarter. On March 7 the GRF effective cash balance (available cash minus unpaid bills) hit a negative \$1 billion for the first time ever. The effective cash balance continued to deteriorate and stood at a negative \$1.132 billion at the end of March.

Revenues

General Funds revenues through the third quarter of fiscal year 2002 were \$16.687



billion, \$187 million or 1.1% lower than the first nine months of fiscal year 2001. This decline includes the \$226 million transfer from the Budget Stabilization Fund. Absent that transfer, General Funds "base" revenues were down \$413 million or 2.4% from the prior year.

The weakness in revenues was evident across most receipt sources, especially those tied most directly to the economy, namely income and sales taxes. Individual income tax receipts are down 2.4% and have been below last year in six of the last nine months, including sizeable drops in January and March.

Corporate income taxes have been hit even harder by the recession, falling 22.3% through the third quarter of the fiscal year. Receipts from this source have fallen in five of the last nine months, including double-digit declines in the last four months.

Although sales taxes were up 2.2%, that growth is somewhat misleading because it does not reflect the six-month suspension of the sales tax on motor fuel last year. While sales taxes have fallen in four of the last nine months, the five months that grew have exhibited growth almost entirely due to the exemption last year. If receipts are adjusted for this factor, sales taxes would have declined by approximately 1.1% over the first three quarters.

Investment income has suffered dramatic declines every month this year, due to low investable balances in the General Funds as well as low interest rates. Through the third quarter receipts are down \$107 million or 49.1% accounting for 25.9% of the total decline in "base" revenues for the year.

Expenditures

Through March, General Funds spending totaled \$17.668 billion, \$438 million or 2.4% below last year. The decrease includes an \$85 million increase in lapse period spending, a \$313 million decrease in spending from current year appropriations, and a \$210 million decrease in transfers out. Last year transfers out included a \$260 million transfer from the General Revenue Fund for the Illinois FIRST Program. Absent that

transfer last year, transfers this year would be up \$50 million.

The decrease in spending from current year appropriations is due to the lack of available cash to make payments. At the end of March, the Comptroller's office was holding \$1.119 billion in vouchers and \$44 million in transfers due to the lack of cash in the General Funds compared to \$283 million in vouchers last March. Had cash been available, fiscal year 2002 General Funds spending through nine months would be up \$444 million or 2.4% - not down \$438 million or 2.4%.

Awards and grants spending increased \$353 million or 3.1% while operations increased \$258 million or 5.0%, transfers out declined \$210 million or 12.4% and all other spending decreased \$2 million. After nine months of fiscal year 2002, expenditures have exceeded revenues by \$981 million resulting in a decrease in the available cash balance from \$1.126 billion at the beginning of the fiscal year to \$145 million at the end of March.

Of the \$353 million increase in grant spending, both Public Aid and the Department of Human Services are up by \$44 million. Awards and grants spending by the State Board of Education is up \$89 million, while higher education and Teachers' Retirement System grants have increased by \$97 and \$67 million respectively.

Spending for operations totaled \$5.405 billion through March, \$258 million higher than comparable expenditures last year. Higher education operations are up 6.9% or \$97 million, while all other operations increased \$161 million (4.3%).

Looking Ahead

The fiscal year 2002 General Funds budget passed in May 2001 was predicated on \$894 million in revenue growth. After two downward revisions, the Bureau of the Budget's current estimate of \$24.350 billion for 2002 still assumes \$244 million in growth. In order to reach that estimate, revenues will need to grow 9.1% over the remaining three months of the fiscal year. Given the results of the last three quarters,

that amount of growth appears highly unlikely. At this point it seems clear that this year's revenues will fall below last year marking the first year-over-year revenue decline in fifty years.

The deterioration of fiscal year 2002 revenues raises questions about revenue growth next year. Although current economic forecasts call for growth, it is unclear whether that growth will be translated into revenue growth. There appear to be a number of factors combining to minimize fiscal year 2003 revenue growth.

Perhaps the two most obvious are the result of federal actions. These are the elimination of the inheritance tax and the accelerated depreciation allowed under the recently enacted federal economic stimulus package. The inheritance tax loss is expected to reduce fiscal year 2003 revenue by an estimated \$70 million. According to the Bureau of the Budget, the new federal depreciation rules might reduce state corporate income tax revenue by as much as \$250 million next year.

It is also unclear whether economic growth will generate a significant increase in personal income tax receipts. The factors that drive income tax liability are the same ones that influence income. These include: employment levels, wage increases, capital gains, and inflation. In order for employment growth to generate significantly higher income, employment levels must first recover to pre-recession levels and that will clearly take time. In addition, it appears that the other factors, especially capital gains and inflation, will not play a major role in income growth in the near future.

The fiscal year 2003 budget presented in February was based on \$480 million in General Funds revenue growth. That increase was based on economic growth next year and on the assumption that this year's revenue levels would be much higher than will actually occur. In addition, the original 2003 budget did not reflect the new federal depreciation rules. Given these uncertainties, it is possible that revenue growth next year might do little more than raise revenue levels to those reached in fiscal year 2001. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2001	2002		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 272	\$ 125	\$ (147)	\$ 1,517	\$ 1,126	\$ (391)	(25.8) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 605	\$ 561	\$ (44)	\$ 5,408	\$ 5,276	\$ (132)	(2.4) %
Corporate	199	153	(46)	685	532	(153)	(22.3)
Total, Income Taxes	804	714	(90)	6,093	5,808	(285)	(4.7)
Sales Taxes	471	453	(18)	4,460	4,557	97	2.2
Other Sources:							
Public Utility Taxes	111	113	2	846	821	(25)	(3.0)
Cigarette Taxes	32	33	1	299	300	1	0.3
Inheritance Tax (gross)	23	25	2	277	254	(23)	(8.3)
Liquor Gallonage Taxes	8	8	0	94	92	(2)	(2.1)
Insurance Tax and Fees	43	46	3	147	165	18	12.2
Corporation Franchise Tax and Fees	14	9	(5)	107	117	10	9.3
Investment Income	23	9	(14)	218	111	(107)	(49.1)
Cook County IGT	23	23	0	177	177	0	0.0
Other	15	19	4	172	166	(6)	(3.5)
Total, Other Sources	292	285	(7)	2,337	2,203	(134)	(5.7)
Total, Cash Receipts	\$ 1,567	\$ 1,452	\$ (115)	\$ 12,890	\$ 12,568	\$ (322)	(2.5) %
Transfers In:							
Lottery Fund	\$ 23	\$ 45	\$ 22	\$ 352	\$ 376	\$ 24	6.8 %
State Gaming Fund	35	30	(5)	340	345	5	1.5
Protest Fund	1	0	(1)	8	5	(3)	(37.5)
Other Funds	28	36	8	300	222	(78)	(26.0)
Total, Transfers In	\$ 87	\$ 111	\$ 24	\$ 1,000	\$ 948	\$ (52)	(5.2) %
Total, State Sources	\$ 1,654	\$ 1,563	\$ (91)	\$ 13,890	\$ 13,516	\$ (374)	(2.7) %
Federal Sources:							
Cash Receipts	\$ 391	\$ 342	\$ (49)	\$ 2,899	\$ 2,882	\$ (17)	(0.6) %
Transfers In	15	6	(9)	85	63	(22)	(25.9)
Total, Federal Sources	\$ 406	\$ 348	\$ (58)	\$ 2,984	\$ 2,945	\$ (39)	(1.3) %
Total, Base Revenues	\$ 2,060	\$ 1,911	\$ (149)	\$ 16,874	\$ 16,461	\$ (413)	(2.4) %
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 2,060	\$ 1,911	\$ (149)	\$ 16,874	\$ 16,687	\$ (187)	(1.1) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 559	\$ 536	\$ (23)	\$ 3,461	\$ 3,550	\$ 89	2.6 %
Public Aid	426	400	(26)	3,633	3,677	44	1.2
Human Services	207	209	2	2,031	2,075	44	2.2
Teachers Retirement	61	69	8	549	616	67	12.2
Higher Education	66	71	5	660	757	97	14.7
All Other Grants	126	103	(23)	1,152	1,164	12	1.0
Total, Awards and Grants	1,445	1,388	(57)	11,486	11,839	353	3.1
Operations:							
Other Agencies	422	399	(23)	3,740	3,901	161	4.3
Higher Education	147	152	5	1,407	1,504	97	6.9
Total, Operations	569	551	(18)	5,147	5,405	258	5.0
Transfers Out	150	213	63	1,699	1,489	(210)	(12.4)
All Other (Includes Prior Year Adjustments)	5	4	(1)	46	44	(2)	(4.3)
Vouchers Payable Adjustment	(122)	(265)	(143)	(272)	(1,109)	(837)	N/A
Total, Base Expenditures	\$ 2,047	\$ 1,891	\$ (156)	\$ 18,106	\$ 17,668	\$ (438)	(2.4) %
Repayment to Budget Stabilization Fund	0	0	0	0	0	0	0.0
Total, Expenditures	2,047	1,891	(156)	18,106	17,668	(438)	(2.4)
AVAILABLE CASH BALANCE, ENDING	\$ 285	\$ 145	\$ (140)	\$ 285	\$ 145	\$ (140)	(49.1) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2001	2002		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 18	\$ 22	\$ 4	\$ 997	\$ 683	\$ (314)	(31.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 560	\$ 520	\$ (40)	\$ 5,013	\$ 4,891	\$ (122)	(2.4) %
Corporate	185	142	(43)	636	493	(143)	(22.5)
Total, Income Taxes	745	662	(83)	5,649	5,384	(265)	(4.7)
Sales Taxes	354	340	(14)	3,350	3,423	73	2.2
Other Sources:							
Public Utility Taxes	100	102	2	754	730	(24)	(3.2)
Cigarette Taxes	21	21	0	194	194	0	0.0
Inheritance Tax (gross)	23	25	2	277	254	(23)	(8.3)
Liquor Gallonage Taxes	8	8	0	94	92	(2)	(2.1)
Insurance Tax and Fees	43	46	3	147	165	18	12.2
Corporation Franchise Tax and Fees	14	9	(5)	107	117	10	9.3
Investment Income	23	9	(14)	217	111	(106)	(48.8)
Cook County IGT	23	23	0	177	177	0	0.0
Other	16	18	2	167	161	(6)	(3.6)
Total, Other Sources	271	261	(10)	2,134	2,001	(133)	(6.2)
Total, Cash Receipts	\$ 1,370	\$ 1,263	\$ (107)	\$ 11,133	\$ 10,808	\$ (325)	(2.9) %
Transfers In	29	36	7	308	227	(81)	(26.3)
Total, State Sources	\$ 1,399	\$ 1,299	\$ (100)	\$ 11,441	\$ 11,035	\$ (406)	(3.5) %
Federal Sources:							
Cash Receipts	\$ 391	\$ 342	\$ (49)	\$ 2,899	\$ 2,882	\$ (17)	(0.6) %
Transfers In	15	6	(9)	85	63	(22)	(25.9)
Total, Federal Sources	\$ 406	\$ 348	\$ (58)	\$ 2,984	\$ 2,945	\$ (39)	(1.3) %
Total, Base Revenues	\$ 1,805	\$ 1,647	\$ (158)	\$ 14,425	\$ 13,980	\$ (445)	(3.1) %
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 1,805	\$ 1,647	\$ (158)	\$ 14,425	\$ 14,206	\$ (219)	(1.5) %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 426	\$ 400	\$ (26)	\$ 3,633	\$ 3,677	\$ 44	1.2 %
Elementary and Secondary Education	253	267	14	1,299	1,387	88	6.8
Human Services	207	209	2	2,031	2,075	44	2.2
Higher Education	53	64	11	533	587	54	10.1
Children and Family Services	47	47	0	561	520	(41)	(7.3)
All Other Grants	83	56	(27)	591	648	57	9.6
Total, Awards and Grants	1,069	1,043	(26)	8,648	8,894	246	2.8
Operations:							
Other Agencies	422	399	(23)	3,740	3,901	161	4.3
Higher Education	123	121	(2)	1,179	1,283	104	8.8
Total, Operations	545	520	(25)	4,919	5,184	265	5.4
Transfers Out	273	336	63	2,028	1,845	(183)	(9.0)
All Other (Includes Prior Adjustments)	6	4	(2)	47	44	(3)	(6.4)
Vouchers Payable Adjustment	(116)	(265)	(149)	(266)	(1,109)	(843)	316.9
Total, Base Expenditures	\$ 1,777	\$ 1,638	\$ (139)	\$ 15,376	\$ 14,858	\$ (518)	(3.4) %
Repayment to Budget Stabilization Fund	0	0	0	0	0	0	0.0
Total, Expenditures	1,777	1,638	(139)	15,376	14,858	(518)	(3.4)
AVAILABLE CASH BALANCE, ENDING	\$ 46	\$ 31	\$ (15)	\$ 46	\$ 31	\$ (15)	(32.6) %