

Comptroller's Quarterly

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# ECONOMIC REVENUES IMPROVE – FISCAL PROBLEMS CONTINUE

Through three quarters of fiscal year 2005, economic driven revenues have shown improvement but are still unable to offset declines from one-time revenues last fiscal year. As a result, the state's backlog of unpaid bills hovered between \$1.2 and \$1.7 billion throughout the third quarter before improving at the end of the period due to short-term borrowing revenue.

The state issued \$765 million in short-term General Obligation Certificates in March 2005 and will repay \$770 million on June 3, 2005. The proceeds were deposited into the General Revenue Fund (GRF) and then transferred to the Hospital Provider Fund. After their expenditure, the resulting federal revenue match and revenues from the hospital assessment tax were transferred back into GRF. As these cash flow transfers constitute double counting, they are excluded from the base figures.

By the end of the March, the dollar amount held (\$674 million) and the number of days payments have been delayed (13 days) have decreased significantly since the short-term borrowing occurred. As seen in the accompanying chart, the backlog of unpaid bills and adjusted GRF balance exhibited no improvement until the most recent short-term borrowing. This temporary improvement in cash flow will deteriorate when funds are set aside for loan repayment. It should be noted that the balance includes \$78.2 million in charge-back transfers which have not been recognized by the State Treasurer due to that officer's concerns about the constitutionality of the transactions. Therefore, the State Comptroller will not release these monies

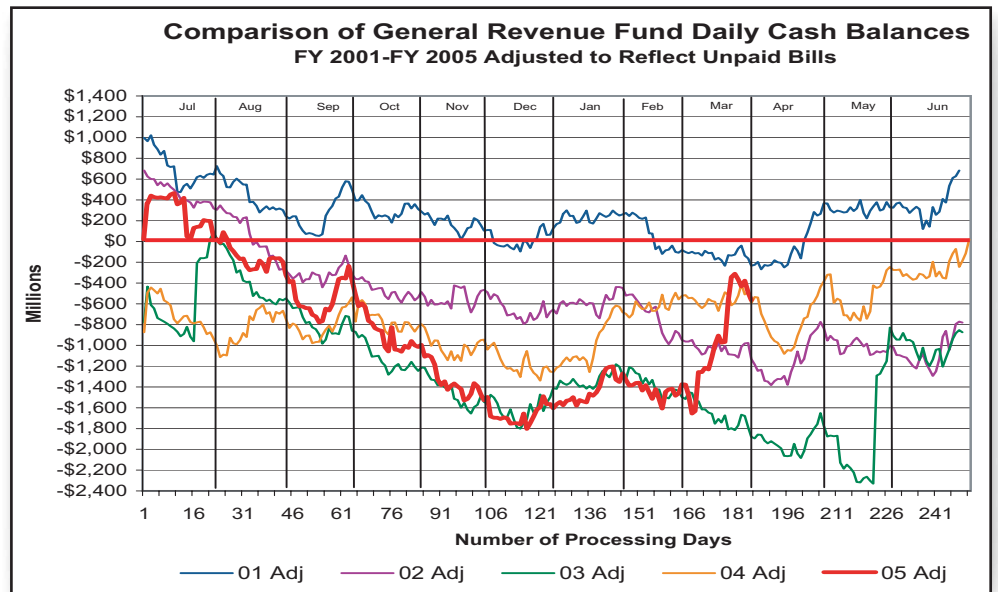
for payment until resolution of questions regarding the transfers.

While the growth in economic driven revenue sources has exceeded expectations, this growth has not offset the decline in revenues from one-time state and federal sources last year. Both General Funds revenues and expenditures have been greatly impacted by the loss of federal funds and the June 2004 short-term borrowing for Medicaid.

Last fiscal year, the federal Jobs and Growth Tax Relief Reconciliation Act temporarily increased the Medicaid reimbursement rate and granted the state \$422 million in additional aid. As a result, federal sources through nine months of fiscal year 2005 are down \$668 million compared to last year. Another fiscal year 2004 source of one-time revenues were the transfers from the

Pension Contribution Fund that totaled \$1.395 billion. The decline in General Funds transfers in was partially offset by a \$433 million transfer from the Medicaid Provider Relief Fund to pay the first installment of the June 2004 short-term borrowing debt. Therefore, even with the economic driven and other state sources of revenue increasing by \$888 million, total General Funds base revenues through three quarters of fiscal year 2005 are down \$786 million.

On the expenditure side, Department of Public Aid grants have decreased by \$415 million compared to last year at this time. Teachers retirement grants and higher education operations spending posted declines through three quarters of fiscal year 2005. The decreases in spending were partially offset by the increase in transfers out of the General Funds including the repayment of June 2004 short-term borrowing this year.



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## Base Revenues

Total base revenues into the General Funds were \$18.940 billion, a decrease of \$786 million or 4.0% below nine months revenues last year. Federal sources declined \$668 million or 16.7% while state sources decreased \$118 million or 0.8%.

The decline in federal sources is due primarily to the federal relief of last year when the state received a \$422 million relief grant and Medicaid reimbursement rates were increased. Also, this year's lowered spending has resulted in less federal reimbursement.

State sources decreased as cash receipts were up \$888 million or 6.9% and transfers in decreased \$1.006 billion or 34.9%. Transfers are down due to the aforementioned Pension Contribution Fund, a one-time source that provided \$1.395 billion. This decline was partially offset by a \$433 million transfer from the Medicaid Provider Relief Fund to help pay for the June 2004 short-term borrowing. Other increases include the Lottery Fund, chargeback transfers and legislated (fund sweep) transfers.

Cash receipt growth was led by improvement in economic driven sources. Individual income taxes were up \$378 million or 7.4% and corporate income taxes increased \$60 million. Sales taxes grew 3.8% or \$181 million. While these increases are not by themselves significant, last year's figures included an additional \$287 million from the tax amnesty program. Excluding the tax amnesty factor, the growth would have been: individual income taxes up \$412 million, corporate income taxes up \$209 million, and sales taxes up \$276 million. Income tax growth was also impacted by the closure of certain tax shelters and the Voluntary Compliance Program which generated \$100 million. In addition, a reduction in the amount allocated to the Refund Fund increased income tax revenues.

Other sources of revenue to the General Funds so far in fiscal year 2005 increased \$269 million or 11.4%. Cigarette taxes went up due to the one-time reallocation of \$50

million to the General Funds. Inheritance taxes increased due to the settlement of some large estates and decoupling from the federal tax last year. Commercial distribution fees are up \$32 million. These and other fees did not generate similar receipts at this juncture last year.

## Base Expenditures

Through March, base General Funds spending totaled \$19.858 billion, \$558 million or 2.9% above the previous year. When repayment for short-term borrowing in fiscal year 2004 is factored in, fiscal year 2005 expenditures in the first nine months were actually \$72 million below last year. General Funds appropriations are up \$316 million or 1.3% over last year.

As indicated, Medicaid grant spending by the Department of Public Aid of \$4.045 billion is down \$415 million or 9.3% from last year. The short-term borrowing for Medicaid spending in June 2004 accelerated spending from the beginning of fiscal year 2005 to the end of fiscal year 2004. This contributed to a \$505 million decrease in Medicaid appropriations for the Department of Public Aid.

Other areas of spending which decreased from last year include higher education operations (down \$129 million or 9.3%), teachers retirement grants (down \$54 million or 7.3%), and higher education grants (down \$8 million or 1.3%).

Areas of spending which increased include State Board of Education grants (up \$221 million or 5.8%), Human Services grants (up \$175 million or 8.5%), and transfers out (up \$1.493 billion or 106.7%). The large increase in transfers out is due primarily to debt service transfers which have increased substantially from last year. Debt service transfers are utilized to pay both general obligation bonds, including pension bonds this year, and short-term borrowing repayments.

## What Lies Ahead?

Economically driven revenues continue to perform well during this fiscal year, leading to revised estimates by the Governor's Office and the Commission on Government

Forecasting and Accountability. However, the cash position of the state (aside from the recent infusion of cash tied to short-term borrowing) continues to be relatively weak. Prior to the March borrowing, the adjusted cash balance throughout the year mirrored the pattern seen during fiscal year 2003. While the state is expected to end the year in a better cash position than 2003 (with all short-term borrowing repaid), a fiscal deterioration from fiscal year 2004 is a strong possibility.

The immediate task at hand remains maintaining cash flow over the next quarter, and through the lapse period, to meet the state's obligations and operational needs. General Funds revenues have come in at a good pace throughout the fiscal year with increases seen in almost every category. However, there are still areas of concern. The Treasurer's suspension of certain fund transfers into the General Funds, which were included in revenue projections, will impact the state's ability to use all collected revenues to pay accumulated bills.

All potential revenues will be critical over the next three months in order for the state to pay back approximately \$770 million for the March 2005 short-term borrowing by the beginning of June. Additionally, the state must use \$276 million to replenish the Budget Stabilization Fund by June 30th. While the pace of spending on Medicaid grants is expected to fall as the DPA exhausts its fiscal year 2005 appropriations, the state will likely still be holding a significant amount of General Funds bills at the end of this fiscal year.

As budget makers work to craft the fiscal year 2006 budget in the next few months, the decisions made will have a significant impact on the fiscal position of the state. The state is likely to end the fiscal year with a small General Funds balance, a significant accumulated balance of bills with a first claim to lapse period revenues, and a large number of Medicaid bills held at DPA. Traditional spending pressure, such as pensions, health care and education, continue to make demands on limited state resources. Without a budget plan that includes a significant amount of revenues early in the fiscal year, payment delays will continue well into fiscal year 2006.

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2004	2005		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 182	\$ 162	\$ (20)	\$ 317	\$ 182	\$ (135)	(42.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 555	\$ 645	\$ 90	\$ 5,090	\$ 5,468	\$ 378	7.4 %
Corporate	174	238	64	647	707	60	9.3
Total, Income Taxes	729	883	154	5,737	6,175	438	7.6
Sales Taxes	513	554	41	4,742	4,923	181	3.8
Other Sources:							
Public Utility Taxes	129	130	1	806	805	(1)	(0.1)
Cigarette Taxes	33	33	0	300	350	50	16.7
Inheritance Tax (gross)	17	32	15	152	232	80	52.6
Liquor Gallonage Taxes	9	12	3	94	111	17	18.1
Insurance Tax and Fees	60	39	(21)	228	225	(3)	(1.3)
Corporation Franchise Tax and Fees	16	17	1	120	133	13	10.8
Investment Income	5	7	2	42	47	5	11.9
Cook County IGT	23	23	0	280	299	19	6.8
Riverboat Gambling Taxes	12	12	0	89	105	16	18.0
Other	35	41	6	248	321	73	29.4
Total, Other Sources	339	346	7	2,359	2,628	269	11.4
Total, Cash Receipts	\$ 1,581	\$ 1,783	\$ 202	\$ 12,838	\$ 13,726	\$ 888	6.9 %
Transfers In:							
Lottery Fund	\$ 68	\$ 70	\$ 2	\$ 417	\$ 438	\$ 21	5.0 %
State Gaming Fund	30	45	15	404	418	14	3.5
Pension Contribution Fund	131	0	(131)	1,395	0	(1,395)	(100.0)
Other Funds	72	124	52	664	1,018	354	53.3
Total, Transfers In	\$ 301	\$ 239	\$ (62)	\$ 2,880	\$ 1,874	\$ (1,006)	(34.9) %
Total, State Sources	\$ 1,882	\$ 2,022	\$ 140	\$ 15,718	\$ 15,600	\$ (118)	(0.8) %
Federal Sources	401	554	153	4,008	3,340	(668)	(16.7)
<b>Total, Base Revenues</b>	<b>\$ 2,283</b>	<b>\$ 2,576</b>	<b>\$ 293</b>	<b>\$ 19,726</b>	<b>\$ 18,940</b>	<b>\$ (786)</b>	<b>(4.0) %</b>
Short-Term Borrowing	0	765	765	0	765	765	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Cash Flow Transfer - Hospital Provider Fund	0	763	763	0	763	763	0.0
Total, Revenues	\$ 2,283	\$ 4,104	\$ 1,821	\$ 19,952	\$ 20,744	\$ 792	4.0 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 591	\$ 623	\$ 32	\$ 3,799	\$ 4,020	\$ 221	5.8 %
Public Aid	352	453	101	4,460	4,045	(415)	(9.3)
Human Services	213	237	24	2,070	2,245	175	8.5
Teachers Retirement	82	81	(1)	744	690	(54)	(7.3)
Higher Education	62	65	3	621	613	(8)	(1.3)
All Other Grants	105	90	(15)	910	936	26	2.9
Total, Awards and Grants	1,405	1,549	144	12,604	12,549	(55)	(0.4)
Operations:							
Other Agencies	398	418	20	3,623	3,688	65	1.8
Higher Education	144	174	30	1,389	1,260	(129)	(9.3)
Total, Operations	542	592	50	5,012	4,948	(64)	(1.3)
Regular Transfers Out	135	325	190	1,399	2,892	1,493	106.7
All Other (Includes Prior Year Adjustments)	0	1	1	14	52	38	271.4
Vouchers Payable Adjustment	(156)	731	887	271	(583)	(854)	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,926</b>	<b>\$ 3,198</b>	<b>\$ 1,272</b>	<b>\$ 19,300</b>	<b>\$ 19,858</b>	<b>\$ 558</b>	<b>2.9 %</b>
Transfers to Repay Short-Term Borrowing	200	0	(200)	630	0	(630)	(100.0)
Cash Flow Transfer - Hospital Provider Fund	0	765	765	0	765	765	0.0
Total, Expenditures	\$ 2,126	\$ 3,963	\$ 1,837	\$ 19,930	\$ 20,623	\$ 693	3.5 %
AVAILABLE CASH BALANCE, ENDING	\$ 339	\$ 303	\$ (36)	\$ 339	\$ 303	\$ (36)	(10.6) %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2004	2005		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 8	\$ 3	\$ (5)	\$ 1	\$ 24	\$ 23	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 515	\$ 598	\$ 83	\$ 4,703	\$ 5,068	\$ 365	7.8 %
Corporate	161	221	60	529	656	127	24.0
Total, Income Taxes	676	819	143	5,232	5,724	492	9.4
Sales Taxes	385		(385)	3,522	3,691	169	4.8
Other Sources:							
Public Utility Taxes	118	119	1	721	726	5	0.7
Cigarette Taxes	22	21	(1)	194	226	32	16.5
Inheritance Tax (gross)	17	32	15	152	232	80	52.6
Liquor Gallonage Taxes	9	12	3	94	111	17	18.1
Insurance Tax and Fees	60	39	(21)	228	226	(2)	(0.9)
Corporation Franchise Tax and Fees	16	17	1	120	133	13	10.8
Investment Income	5	7	2	42	47	5	11.9
Cook County IGT	23	23	0	280	299	19	6.8
Other	34	41	7	243	316	73	30.0
Total, Other Sources	304	311	7	2,074	2,316	242	11.7
Total, Cash Receipts	\$ 1,365	\$ 1,130	\$ (235)	\$ 10,828	\$ 11,731	\$ 903	8.3 %
Transfers In:							
Regular Transfers In	\$ 72	\$ 126	\$ 54	\$ 664	\$ 975	\$ 311	46.8 %
Pension Contribution Fund	131	0	(131)	1,395	0	(1,395)	(100.0)
Total, Transfers In	\$ 203	\$ 126	\$ (77)	\$ 2,059	\$ 975	\$ (1,084)	(52.6) %
Total, State Sources	\$ 1,568	\$ 1,256	\$ (312)	\$ 12,887	\$ 12,706	\$ (181)	(1.4) %
Federal Sources:	401	554	153	4,008	3,340	(668)	(16.7)
<b>Total, Base Revenues</b>	<b>\$ 1,969</b>	<b>\$ 1,810</b>	<b>\$ (159)</b>	<b>\$ 16,895</b>	<b>\$ 16,046</b>	<b>\$ (849)</b>	<b>(5.0) %</b>
Short-Term Borrowing	0	765	765	0	765	765	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Cash Flow Transfer - Hospital Provider Fund	0	765	765		765	765	0.0
Total, Revenues	\$ 1,969	\$ 3,340	\$ 606	\$ 17,121	\$ 17,852	\$ 731	4.3 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 352	\$ 453	\$ 101	\$ 4,460	\$ 4,031	\$ (429)	(9.6) %
Elementary and Secondary Education	305	317	12	1,480	1,492	12	0.8
Human Services	213	237	24	2,070	2,149	79	3.8
Higher Education	62	65	3	525	612	87	16.6
Children and Family Services	46	36	(10)	421	410	(11)	(2.6)
All Other Grants	65	75	10	542	572	30	5.5
Total, Awards and Grants	1,043	1,183	140	9,498	9,266	(232)	(2.4)
Operations:							
Other Agencies	398	418	20	3,623	3,389	(234)	(6.5)
Higher Education	144	174	30	1,389	1,205	(184)	(13.2)
Total, Operations	542	592	50	5,012	4,594	(418)	(8.3)
Regular Transfers Out	193	126	(67)	1,542	2,324	782	50.7
All Other (Includes Prior Adjustments)	0	1	1	14	52	38	271.4
Vouchers Payable Adjustment	(156)	731	887	271	583	312	N/A
<b>Total, Base Expenditures</b>	<b>\$ 1,622</b>	<b>\$ 2,633</b>	<b>\$ 1,011</b>	<b>\$ 16,337</b>	<b>\$ 16,819</b>	<b>\$ 482</b>	<b>3.0 %</b>
Transfers to Repay Short-Term Borrowing	200	0	(200)	630	0	(630)	(100.0)
Cash Flow Transfer - Hospital Provider Fund	0	765	765	0	765	765	(100.0)
Total, Expenditures	1,822	3,398	1,576	16,967	17,584	617	3.6
AVAILABLE CASH BALANCE, ENDING	\$ 155	\$ (55)	\$ (210)	\$ 155	\$ 292	\$ 137	88.4 %