

Comptroller's Quarterly

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Cash Flow Problems Persist

Over the first six months of fiscal year 2002, the General Funds available cash balance dropped \$915 million, falling from \$1.126 billion at the start of the year to \$211 million at the end of December. 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 \$33 million at the end of December.

In addition, the Comptroller's Office was holding \$688 million in General Revenue Fund (GRF) voucher's 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 \$655 million at the end of December. Over the same period last fiscal year, the GRF balance declined \$935 million from \$997 million to \$62 million. However, vouchers payable at the end of last December totaled \$49 million, leaving an effective balance of a positive \$13 million. This year's effective cash position is \$642 million worse than last year with a \$1.338 billion deterioration since the beginning of the fiscal year compared to a \$984 million deterioration last year.

The fact that the GRF cash balances and effective cash position fell dramatically over the first half of the fiscal year is typical given the seasonal mismatch between revenue and spending demands from July to December.

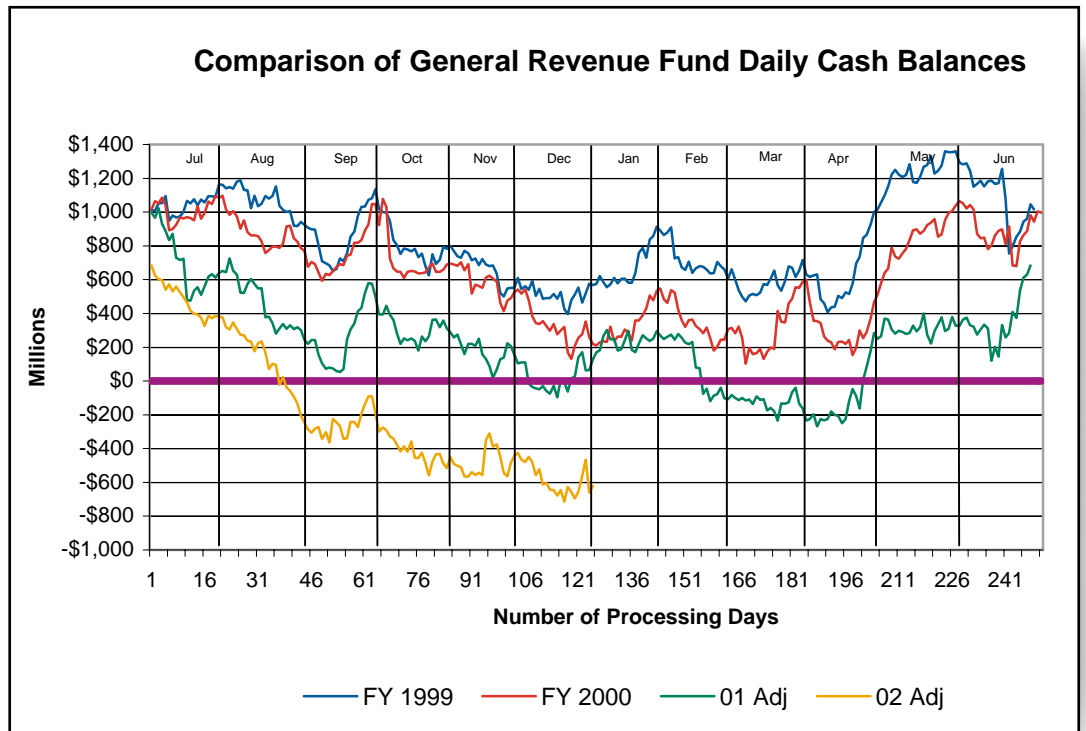
However, the size of the decline during the last two years is unusual. Last year's drop was largely the result of a \$260 million transfer to the Fund for Illinois'

Future and the temporary sales tax exemption for motor fuel purchases. This year's fall 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's drop reduced the balance at the start of January and set the stage for GRF cash flow difficulties from mid-February through late April 2001. This year, cash

Under normal conditions, payment requests from state agencies are processed by the Comptroller's Office and payments issued without delay. However, when there is a shortage of cash, payment requests are still processed and entered into the accounting system where they are recognized as expenditures of the state. In this instance, payments are delayed pending the availability of cash. Because of this year's cash shortage, some payments have been delayed as long as 18 business days.

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



flow problems developed in late August and are expected to last at least until May 2002.

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.

Revenues

General Funds revenues through the second quarter of FY 2002 were \$11.173 billion, \$141 million or 1.3% higher than the first half of fiscal year 2001. The \$141 million increase includes the \$226 million transfer from the Budget Stabilization Fund. Absent the infusion of rainy day dollars, General Funds revenues through six months of fiscal year 2002 were down \$85 million from the prior year. Growth is further exaggerated due to the temporary suspension of the sales tax on motor fuel during the first six months of last fiscal year. Accounting for this suspension (an estimated loss of \$125 million in revenues), General Funds receipts were down an estimated \$210 million over the first six months.

The weakness in revenues was evident across several receipt sources, especially those tied most directly to the economy, namely income and sales taxes. Both individual and corporate income taxes dropped, falling by 0.3% and 19.7%, respectively. Although sales taxes were up 3.1%, this growth does not reflect the suspension of the sales tax on motor fuel last year. After receipts are adjusted for this factor, sales taxes actually declined by approximately 1%.

Second quarter revenues rebounded from dismal first quarter revenues, growing by \$211 million compared to last year. Much of the growth in the second quarter was in sales tax receipts (\$94 million), which can be attributed to the suspension of the tax on motor fuel and 0% financing incentives offered by many auto-makers.

Expenditures

Through December, General Funds cash spending totaled \$12.088 billion, \$167 million or 1.4% below last year. The \$167 million decrease includes an \$88 million increase in lapse period spending, a \$127

million decrease in spending from current year appropriations, and a \$138 million decrease in transfers out. Last year transfers out in the first quarter included a \$260 million transfer from the General Revenue Fund to the Fund for Illinois' Future. Absent that transfer last year, transfers this year would be up \$122 million.

The decrease in cash spending is due to the lack of available cash to make payments. Normally, cash spending and payment demands (expenditures) are the same. Under cash constraints, however, payment demands are recognized as expenditures even if the cash payment has not been issued yet. Although cash spending is down through the first half of the fiscal year, General Funds payment demands are up \$413 million or 3.3%.

After six months of fiscal year 2002, cash spending has exceeded revenues by \$915 million resulting in a decrease in the available cash balance from \$1.126 billion at the beginning of the fiscal year to \$211 million at the end of December.

Awards and grants spending increased \$360 million or 4.7% while operations increased \$194 million or 5.6%. Transfers out declined \$138 million or 11.6% and all other spending decreased \$3 million.

Of the \$360 million increase in grant spending, Public Aid is up \$70 million or 2.9% through December while the Department of Human Services has increased by \$47 million or 3.3%. Awards and grants spending by the State Board of Education are up \$73 million, while higher education and Teachers' Retirement System grants have increased by \$62 and \$44 million respectively.

Spending for operations totaled \$3.674 billion through December, \$194 million higher than comparable expenditures last year. Higher education operations are up 6.2% or \$59 million, while all other operations increased \$135 million (5.3%).

Cash Balances

Although GRF revenue declined \$117 million during the first half of the year (absent the infusion of \$226 million from

the Budget Stabilization Fund), spending demands have continued to grow. As a result, cash flow difficulties emerged in late August and are expected to last at least until May 2002. This is the first time since 1995 that such problems have surfaced so early in the year. Through the end of December 2001, GRF payments have been delayed due to a lack of cash on every processing day since August 24 (86 consecutive days). Over this time, the daily available cash balance has dipped as low as \$8 million and unpaid bills have been as high as \$793 million.

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. The \$226 million was used to pay down backlogged Medicaid bills in an effort to accelerate federal matching funds. This action reduced unpaid bills to \$350 million. The level of unpaid bills again rose, and as of December 31, 2001, stood at \$688 million. 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.

The widespread weakness in most revenue sources earlier in the year prompted the Bureau of the Budget to reduce its original 2002 General Funds revenue estimate by \$350 million in October. In addition, the Governor's Office has initiated numerous budget-reduction measures in an effort to bring the budget back in line over the course of the fiscal year.

It now appears that given the combined weakness in revenues and sustained higher spending levels in the first half of the fiscal year, cash flow difficulties will continue for the remainder of fiscal year 2002. In order to reach the current annual estimates, revenues need to grow 5.1% over the last half of the fiscal year. Whether that growth is achieved, and whether the budget-reduction measures have the desired effect, will depend on the depth of the current recession and the timing and strength of economic recovery.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2000	2001		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 410	\$ 257	\$ (153)	\$ 1,517	\$ 1,126	\$ (391)	(25.8) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 547	\$ 582	\$ 35	\$ 3,339	\$ 3,330	\$ (9)	(0.3) %
Corporate	165	124	(41)	426	342	(84)	(19.7)
Total, Income Taxes	712	706	(6)	3,765	3,672	(93)	(2.5)
Sales Taxes	528	552	24	3,018	3,112	94	3.1
Other Sources:							
Public Utility Taxes	78	85	7	522	511	(11)	(2.1)
Cigarette Taxes	33	34	1	200	200	0	0.0
Inheritance Tax (gross)	28	27	(1)	206	180	(26)	(12.6)
Liquor Gallonage Taxes	10	11	1	65	63	(2)	(3.1)
Insurance Tax and Fees	43	55	12	95	112	17	17.9
Corporation Franchise Tax and Fees	9	10	1	69	77	8	11.6
Investment Income	18	11	(7)	141	83	(58)	(41.1)
Cook County IGT	23	23	0	154	154	0	0.0
Other	15	15	0	117	112	(5)	(4.3)
Total, Other Sources	257	271	14	1,569	1,492	(77)	(4.9)
Total, Cash Receipts	\$ 1,497	\$ 1,529	\$ 32	\$ 8,352	\$ 8,276	\$ (76)	(0.9) %
Transfers In:							
Lottery Fund	\$ 33	\$ 38	\$ 5	\$ 224	\$ 237	\$ 13	5.8 %
State Gaming Fund	65	47	(18)	267	270	3	1.1
Budget Stabilization Fund	0	0	0	0	226	226	N/A
Protest Fund	2	0	(2)	6	2	(4)	(66.7)
Other Funds	17	53	36	197	155	(42)	(21.3)
Total, Transfers In	\$ 117	\$ 138	\$ 21	\$ 694	\$ 890	\$ 196	28.2 %
Total, State Sources	\$ 1,614	\$ 1,667	\$ 53	\$ 9,046	\$ 9,166	\$ 120	1.3 %
Federal Sources:							
Cash Receipts	\$ 310	\$ 359	\$ 49	\$ 1,948	\$ 1,960	\$ 12	0.6 %
Transfers In	0	22	22	38	47	9	23.7
Total, Federal Sources	\$ 310	\$ 381	\$ 71	\$ 1,986	\$ 2,007	\$ 21	1.1 %
Total, Revenues	\$ 1,924	\$ 2,048	\$ 124	\$ 11,032	\$ 11,173	\$ 141	1.3 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 563	\$ 599	\$ 36	\$ 2,267	\$ 2,340	\$ 73	3.2 %
Public Aid	402	402	0	2,407	2,477	70	2.9
Human Services	195	230	35	1,417	1,464	47	3.3
Teachers Retirement	61	68	7	367	411	44	12.0
Higher Education	25	37	12	373	435	62	16.6
All Other Grants	111	113	2	806	870	64	7.9
Total, Awards and Grants	1,357	1,449	92	7,637	7,997	360	4.7
Operations:							
Other Agencies	422	467	45	2,529	2,664	135	5.3
Higher Education	169	172	3	951	1,010	59	6.2
Total, Operations	591	639	48	3,480	3,674	194	5.6
Transfers Out	119	181	62	1,191	1,053	(138)	(11.6)
All Other (Includes Prior Adjustments)	4	1	(3)	38	35	(3)	(7.9)
Total, Expenditures	\$ 2,071	\$ 2,270	\$ 199	\$ 12,346	\$ 12,759	\$ 413	3.3 %
Adjustment for Vouchers Payable	(31)	(176)	(145)	(91)	(671)	(580)	N/A
Total, Cash Expenditures	2,040	2,094	54	12,255	12,088	(167)	(1.4)
AVAILABLE CASH BALANCE, ENDING	\$ 294	\$ 211	\$ (83)	\$ 294	\$ 211	\$ (83)	(28.2) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2000	2001		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 156	\$ 25	\$ (131)	\$ 997	\$ 683	\$ (314)	(31.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 507	\$ 540	\$ 33	\$ 3,095	\$ 3,087	\$ (8)	(0.3) %
Corporate	153	115	(38)	395	317	(78)	(19.7)
Total, Income Taxes	660	655	(5)	3,490	3,404	(86)	(2.5)
Sales Taxes	396	414	18	2,268	2,338	70	3.1
Other Sources:							
Public Utility Taxes	69	75	6	461	452	(9)	(2.0)
Cigarette Taxes	22	22	0	130	130	0	0.0
Inheritance Tax (gross)	28	27	(1)	206	180	(26)	(12.6)
Liquor Gallonage Taxes	10	11	1	65	63	(2)	(3.1)
Insurance Tax and Fees	43	55	12	95	112	17	17.9
Corporation Franchise Tax and Fees	9	10	1	69	77	8	11.6
Investment Income	18	11	(7)	140	83	(57)	(40.7)
Cook County IGT	23	23	0	154	154	0	0.0
Other	15	15	0	115	108	(7)	(6.1)
Total, Other Sources	237	249	12	1,435	1,359	(76)	(5.3)
Total, Cash Receipts	\$ 1,293	\$ 1,318	\$ 25	\$ 7,193	\$ 7,101	\$ (92)	(1.3) %
Transfers In:							
Budget Stabilization Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 226	\$ 226	N/A %
Other Transfers In	20	53	33	203	157	(46)	(22.7)
Total, Transfers In	\$ 20	\$ 53	\$ 33	\$ 203	\$ 383	\$ 180	88.7 %
Total, State Sources	\$ 1,313	\$ 1,371	\$ 58	\$ 7,396	\$ 7,484	\$ 88	1.2 %
Federal Sources:							
Cash Receipts	\$ 310	\$ 359	\$ 49	\$ 1,948	\$ 1,960	\$ 12	0.6 %
Transfers In	0	22	22	38	47	9	23.7
Total, Federal Sources	\$ 310	\$ 381	\$ 71	\$ 1,986	\$ 2,007	\$ 21	1.1 %
Total, Revenues	\$ 1,623	\$ 1,752	\$ 129	\$ 9,382	\$ 9,491	\$ 109	1.2 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 402	\$ 402	\$ 0	\$ 2,407	\$ 2,477	\$ 70	2.9 %
Elementary and Secondary Education	258	330	72	870	985	115	13.2
Human Services	195	230	35	1,417	1,464	47	3.3
Higher Education	26	34	8	268	375	107	39.9
Children and Family Services	70	59	(11)	411	368	(43)	(10.5)
All Other Grants	44	54	10	420	505	85	20.2
Total, Awards and Grants	995	1,109	114	5,793	6,174	381	6.6
Operations:							
Other Agencies	422	467	45	2,529	2,664	135	5.3
Higher Education	155	162	7	806	884	78	9.7
Total, Operations	577	629	52	3,335	3,548	213	6.4
Transfers Out	119	181	62	1,191	1,053	(138)	(11.6)
All Other (Includes Prior Adjustments)	4	1	(3)	37	37	0	0.0
Total, Expenditures	\$ 1,695	\$ 1,920	\$ 225	\$ 10,356	\$ 10,812	\$ 456	4.4 %
Adjustment for Vouchers Payable	22	(176)	(198)	(39)	(671)	(632)	N/A
Total, Cash Expenditures	1,717	1,744	27	10,317	10,141	(176)	(1.7)
AVAILABLE CASH BALANCE, ENDING	\$ 62	\$ 33	\$ (29)	\$ 62	\$ 33	\$ (29)	(46.8) %