

Comptroller's Quarterly

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FISCAL DETERIORATION CONTINUES

At the end of the first half of fiscal year 2003, the State's General Revenue Fund (GRF) is still experiencing severe cash flow difficulties with more than \$1.4 billion in unpaid bills at the end of December. Without the one-time infusion of more than \$1 billion in July, the GRF backlog would be almost \$2.5 billion. This infusion was 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 grow.

The GRF cash flow began to deteriorate during fiscal year 2001 (see graph). Following sporadic payment delays during that year, the GRF effective cash balance (available cash less unpaid bills) turned negative in mid-August 2001. Except for a brief reprieve following the cash infusion last July, the effective cash balance has shown a steady worsening. Through the first half of last fiscal year, unpaid bills reached \$800 million and payments were delayed up to 18 business days. During December 2002, overdue payments topped \$1.8 billion and delays reached 37 days.

After the first six months of fiscal year 2002, the GRF effective cash balance stood at a negative \$655 million. Over the comparable time period this year, the effective cash balance dropped to a minus \$1.411 billion.

Revenues continue to perform below expectations. Even including unexpected revenues received during the second quarter, General Funds revenues for the first half of the year are more than \$200 million below previous estimates. Both income and sales

taxes remain weak, reflecting an economy still in decline.

Base Revenues Increase 1.6%

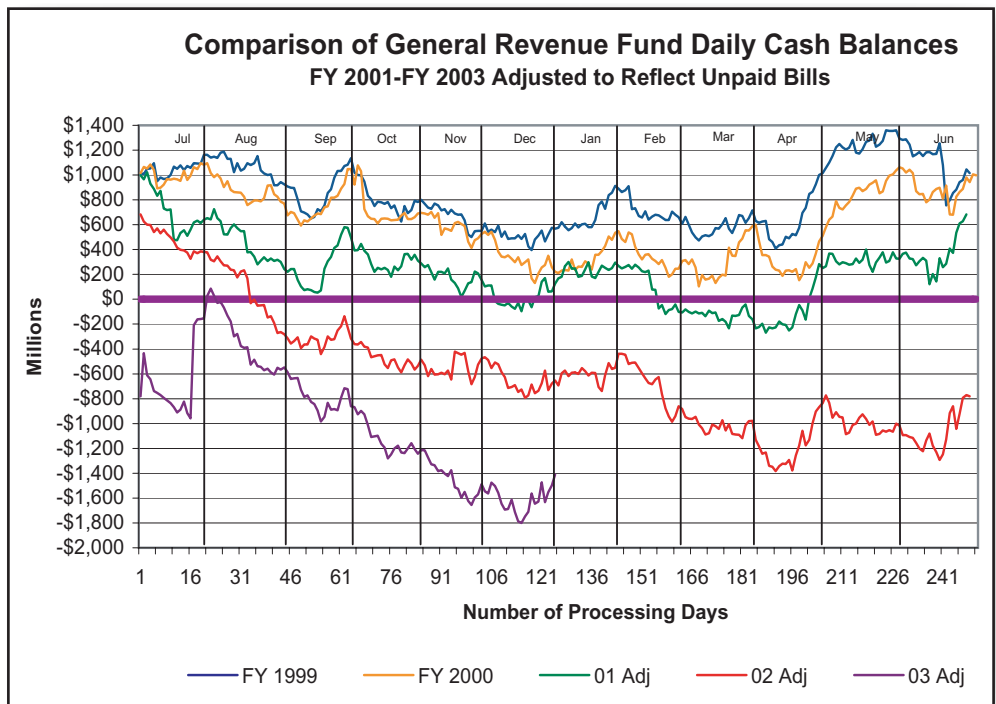
Total base revenues in the General Funds (excluding short-term borrowing and a transfer from the Budget Stabilization Fund) totaled \$11.127 billion through the second quarter, an increase of \$180 million or 1.6%. State sources were up \$225 million (2.5%) while federal sources declined \$45 million (2.2%).

After six months, the growth in state sources is due to many one-time factors

which increased revenues. Transfers in grew \$298 million while cash receipts fell \$73 million. In July, \$156 million from various funds were transferred as a cash infusion into the General Revenue Fund (GRF). Protest Fund transfers are up \$52.3 million due to the settlement of insurance privilege tax cases. Gaming Fund transfers increased \$79 million as a result of the riverboat tax increase.

Declining receipts were partially offset by the December deposit into the GRF of \$88 million in tobacco settlement escrow monies per court order. Cook County intergovernmental transfers were up \$21 million due to a change in the transfer agreement. These increases were not enough to cover the decreases in some of the major receipt sources.

Investment income fell \$46 million (55.4%) due to lower interest rates and



investable balances. As expected, inheritance tax revenues are down \$44 million (24.4%) due to federal tax law changes. Public utility tax receipts declined \$37 million (7.2%) but some of this decrease may be due to the timing of deposits. The slow growing economy has affected income and sales taxes. Income taxes dropped \$76 million with individual income taxes down \$21 million (0.6%) and corporate down \$55 million (16.1%). Sales taxes increased only \$4 million or 0.1%.

Although federal sources are down \$45 million, they are expected to decrease by \$183 million for the year.

While the month of December showed exceptional growth of \$207 million, most of this growth was due to the timing of deposits, an extra processing day and a one-time deposit. As stated earlier, the majority of the increase in other sources was due to an \$88 million deposit from the tobacco settlement escrow account. Federal receipts increased \$75 million due primarily to the timing of TANF deposits which are up \$65 million for the month but are down \$1 million for the year. Individual income tax receipts increased \$72 million due to an extra processing day and some carry over from November.

Expenditures Up 0.5%

Through December, General Funds expenditures totaled \$12.146 billion, \$58 million or 0.5% above last year. With total General Funds appropriations down by \$1.106 billion from last year, it would appear surprising on the surface that spending is up by \$58 million.

A closer look at the pace of spending, in particular Medicaid spending, is revealing. Medicaid spending of \$2.907 billion is up \$430 million or 17.4% through the second quarter and has exhausted 58.8% of current year appropriations compared to just 48.7% in the first half of fiscal year 2002. The spike in Medicaid spending is due 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 half include State Board of Education grants (up \$50 million or 2.1%) and Teachers' Retirement System grants (up \$55 million or 13.4%).

Areas of spending which declined over the first half include Human Services grants (down \$37 million or 2.5%), higher education grants (down \$31 million or 7.1%), all other grants (down \$195 million or 22.4%), regular state operations expenditures (down \$157 million or 5.9%), higher education operations (down \$7 million or 0.7%), transfers out (down \$131 million or 12.4%) and all other spending – which includes permanent improvements, refunds and prior year adjustments (down \$24 million or 68.6%).

Through the first half of fiscal year 2003, 49.8% of current year's appropriations have been expended compared to only 46.5% in fiscal year 2002. Non-Medicaid spending has used 47.3% of appropriations in 2003, slightly higher than the 46.3% expended in 2002.

What Lies Ahead

As indicated in the graph, the GRF cash flow crisis continued to worsen during the first half of fiscal year 2003, despite the July infusion of more than \$1 billion in cash. This deterioration is due to underperforming revenue sources tied to the economy and a surge in spending during the first quarter. In order for the second half to show noticeable improvement, revenue growth must accelerate and spending growth slow dramatically.

There is little evidence to indicate that revenue growth will pick up appreciably over the next six months. Although receipts surged in December, that growth was not related to an increase in economic activity. Even the jump in personal income tax receipts appears to

be a timing issue. Further evidence of economic weakness is evident in the fact that December sales tax receipts were up only \$2 million, even with an extra processing day before Christmas.

The fiscal year 2003 budget was predicated on base revenue growth of 4.3%. That year-over-year growth has since been reduced to 3.5%. Unfortunately, growth through the first half of the year amounts to only 1.6%. In order to reach the current revenue estimate, General Funds revenues need to increase 5.0% during the last half of the year. This includes 8.5% in personal income taxes and double-digit growth in corporate income (+17.8%), sales (+11.7%), and public utility taxes (+15.7%) and interest income (+37.7%).

Spending from current year appropriations will likely slow somewhat over the last half of the year, if for no other reason than the fact that there are considerably less appropriations left than in previous years. That assumes no supplemental appropriations are enacted. In addition to spending from current-year appropriations, second-half spending demands will reflect the repayment of the \$700 million in short-term borrowing proceeds deposited in the GRF, as well as the repayment of \$226 million borrowed from the Budget Stabilization Fund.

The State's cash flow over the next six months will depend heavily on the performance of the economy and revenue sources tied most directly to economic activity. 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 the current revenue estimates. Even if employment picks up, it seems clear that personal income tax withholding and sales taxes cannot rebound enough to keep payment delays from growing worse, especially given the short-term and Budget Stabilization Fund repayment requirements. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2001	2002		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 257	\$ 125	\$ (132)	\$ 1,126	\$ 256	\$ (870)	(77.3) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 582	\$ 654	\$ 72	\$ 3,330	\$ 3,309	\$ (21)	(0.6) %
Corporate	124	107	(17)	342	287	(55)	(16.1)
Total, Income Taxes	706	761	55	3,672	3,596	(76)	(2.1)
Sales Taxes	552	554	2	3,112	3,116	4	0.1
Other Sources:							
Public Utility Taxes	85	70	(15)	511	474	(37)	(7.2)
Cigarette Taxes	34	33	(1)	200	200	0	0.0
Inheritance Tax (gross)	27	18	(9)	180	136	(44)	(24.4)
Liquor Gallonage Taxes	11	11	0	63	64	1	1.6
Insurance Tax and Fees	55	62	7	112	129	17	15.2
Corporation Franchise							
Tax and Fees	10	11	1	77	67	(10)	(13.0)
Investment Income	11	6	(5)	83	37	(46)	(55.4)
Cook County IGT	23	23	0	154	175	21	13.6
Other	15	114	99	112	209	97	86.6
Total, Other Sources	271	348	77	1,492	1,491	(1)	(0.1)
Total, Cash Receipts	\$ 1,529	\$ 1,663	\$ 134	\$ 8,276	\$ 8,203	\$ (73)	(0.9) %
Transfers In:							
Lottery Fund	\$ 38	\$ 44	\$ 6	\$ 237	\$ 244	\$ 7	3.0 %
State Gaming Fund	47	69	22	270	349	79	29.3
Other Funds	53	41	(12)	157	369	212	135.0
Total, Transfers In	\$ 138	\$ 154	\$ 16	\$ 664	\$ 962	\$ 298	44.9 %
Total, State Sources	\$ 1,667	\$ 1,817	\$ 150	\$ 8,940	\$ 9,165	\$ 225	2.5 %
Federal Sources:							
Cash Receipts	\$ 359	\$ 434	\$ 75	\$ 1,960	\$ 1,948	\$ (12)	(0.6) %
Transfers In	22	4	(18)	47	14	(33)	(70.2)
Total, Federal Sources	\$ 381	\$ 438	\$ 57	\$ 2,007	\$ 1,962	\$ (45)	(2.2) %
Total, Base Revenues	\$ 2,048	\$ 2,255	\$ 207	\$ 10,947	\$ 11,127	\$ 180	1.6 %
Short-Term Borrowing	0	0	0	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	0.0
Total, Revenues	\$ 2,048	\$ 2,255	\$ 207	\$ 11,173	\$ 12,053	\$ 880	7.9 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 599	\$ 570	\$ (29)	\$ 2,340	\$ 2,390	\$ 50	2.1 %
Public Aid	402	391	(11)	2,477	2,907	430	17.4
Human Services	230	225	(5)	1,464	1,427	(37)	(2.5)
Teachers Retirement	68	78	10	411	466	55	13.4
Higher Education	37	31	(6)	435	404	(31)	(7.1)
All Other Grants	113	118	5	870	675	(195)	(22.4)
Total, Awards and Grants	1,449	1,413	(36)	7,997	8,269	272	3.4
Operations:							
Other Agencies	467	388	(79)	2,664	2,507	(157)	(5.9)
Higher Education	172	182	10	1,010	1,003	(7)	(0.7)
Total, Operations	639	570	(69)	3,674	3,510	(164)	(4.5)
Transfers Out	181	120	(61)	1,053	922	(131)	(12.4)
All Other (Includes Prior Year Adjustments)	1	1	0	35	11	(24)	(68.6)
Vouchers Payable Adjustment	(176)	113	289	(671)	(566)	105	N/A
Total, Base Expenditures	\$ 2,094	\$ 2,217	\$ 123	\$ 12,088	\$ 12,146	\$ 58	0.5 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,094	2,217	123	12,088	12,146	58	0.5
AVAILABLE CASH BALANCE, ENDING	\$ 211	\$ 163	\$ (48)	\$ 211	\$ 163	\$ (48)	(22.7) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2001	2002		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 25	\$ 18	\$ (7)	\$ 683	\$ 0	\$ (683)	(100.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 540	\$ 607	\$ 67	\$ 3,087	\$ 3,068	\$ (19)	(0.6) %
Corporate	115	99	(16)	317	266	(51)	(16.1)
Total, Income Taxes	655	706	51	3,404	3,334	(70)	(2.1)
Sales Taxes	414	416	2	2,338	2,341	3	0.1
Other Sources:							
Public Utility Taxes	75	62	(13)	452	421	(31)	(6.9)
Cigarette Taxes	22	22	0	130	131	1	0.8
Inheritance Tax (gross)	27	18	(9)	180	136	(44)	(24.4)
Liquor Gallonage Taxes	11	11	0	63	64	1	1.6
Insurance Tax and Fees	55	62	7	112	129	17	15.2
Corporation Franchise Tax and Fees	10	11	1	77	67	(10)	(13.0)
Investment Income	11	6	(5)	83	37	(46)	(55.4)
Cook County IGT	23	23	0	154	175	21	13.6
Other	15	113	98	108	205	97	89.8
Total, Other Sources	249	328	79	1,359	1,365	6	0.4
Total, Cash Receipts	\$ 1,318	\$ 1,450	\$ 132	\$ 7,101	\$ 7,040	\$ (61)	(0.9) %
Transfers In	53	40	(13)	157	369	212	135.0
Total, State Sources	\$ 1,371	\$ 1,490	\$ 119	\$ 7,258	\$ 7,409	\$ 151	2.1 %
Federal Sources:							
Cash Receipts	\$ 359	\$ 434	\$ 75	\$ 1,960	\$ 1,948	\$ (12)	(0.6) %
Transfers In	22	4	(18)	47	14	(33)	(70.2)
Total, Federal Sources	\$ 381	\$ 438	\$ 57	\$ 2,007	\$ 1,962	\$ (45)	(2.2) %
Total, Base Revenues	\$ 1,752	\$ 1,928	\$ 176	\$ 9,265	\$ 9,371	\$ 106	1.1 %
Short-Term Borrowing	0	0	0	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	N/A
Total, Revenues	\$ 1,752	\$ 1,928	\$ 176	\$ 9,491	\$ 10,297	\$ 806	8.5 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 402	\$ 391	\$ (11)	\$ 2,477	\$ 2,907	\$ 430	17.4 %
Elementary and Secondary Education	330	309	(21)	985	1,064	79	8.0
Human Services	230	225	(5)	1,464	1,427	(37)	(2.5)
Higher Education	34	31	(3)	375	343	(32)	(8.5)
Children and Family Services	59	49	(10)	368	329	(39)	(10.6)
All Other Grants	54	77	23	505	381	(124)	(24.6)
Total, Awards and Grants	1,109	1,082	(27)	6,174	6,451	277	4.5
Operations:							
Other Agencies	467	388	(79)	2,664	2,507	(157)	(5.9)
Higher Education	162	152	(10)	884	858	(26)	(2.9)
Total, Operations	629	540	(89)	3,548	3,365	(183)	(5.2)
Transfers Out	181	177	(4)	1,053	1,002	(51)	(4.8)
All Other (Includes Prior Adjustments)	1	1	0	37	11	(26)	(70.3)
Vouchers Payable Adjustment	(176)	127	303	(671)	(551)	120	N/A
Total, Base Expenditures	\$ 1,744	\$ 1,927	\$ 183	\$ 10,141	\$ 10,278	\$ 137	1.4 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	1,744	1,927	183	10,141	10,278	137	1.4
AVAILABLE CASH BALANCE, ENDING	\$ 33	\$ 19	\$ (14)	\$ 33	\$ 19	\$ (14)	(42.4) %