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No Economic Recovery Yet in Illinois

Illinois has historically been one of the first states to fall into economic recession and one of the last to recover. While reports of an imminent national economic recovery begin to appear, state revenues driven by the economy are not growing. Total individual and corporate income taxes are down while sales taxes are up only modestly.

Through the first half of fiscal year 2004, revenues are up \$1.269 billion and spending has increased \$1.147 billion. This is reflected in the small improvement in the cash balance adjusted to reflect unpaid bills.

Base revenues (excluding borrowing) increased \$1.969 billion or 17.7% and can be attributed to three factors. First, the state issued \$10 billion in pension General Obligation Bonds last year with \$1.860 billion allocated to the General Funds. So far this year, \$965 million has been transferred from the Pension Contribution Fund. Second, the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 allocated a grant of \$422 million to the state and temporarily increased Medicaid reimbursement rates from 50% to 53%. As a result, federal revenues have increased \$909 million or 46.3%. Third, the state implemented a tax amnesty program. Through the first six months of fiscal year 2004, this program has deposited \$507 million from various sources with \$287 million going to the General Funds.

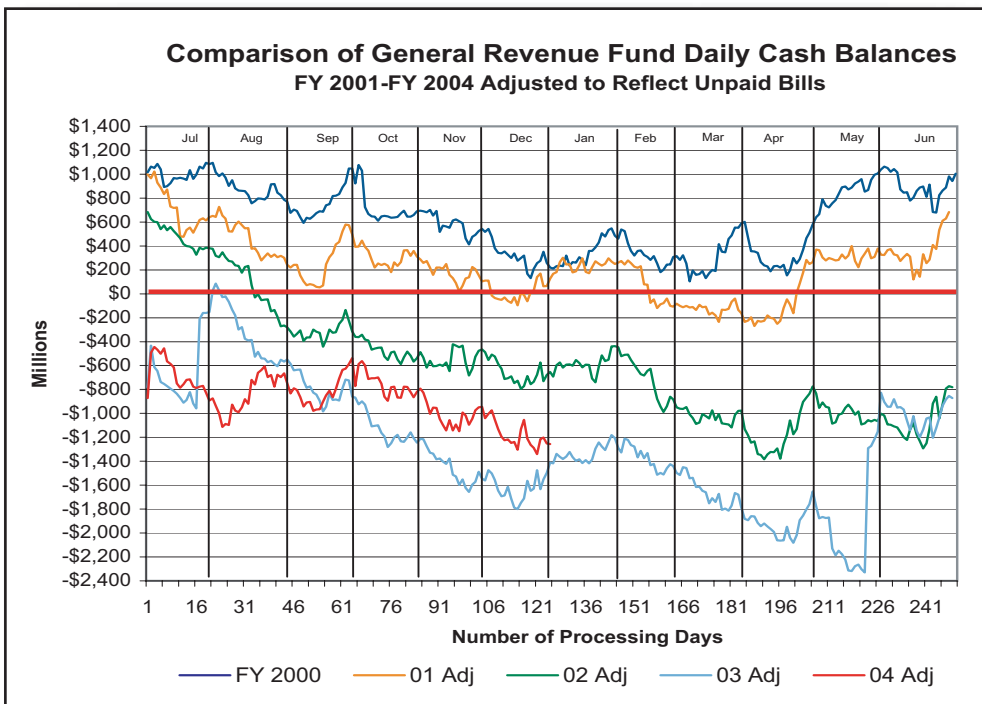
On the expenditure side, growth of \$668 million in Medicaid grant spending is due in part to the increased availability of federal funds. In May last year, the state borrowed \$1.5 billion in short-term loans and to date \$230 million has been transferred to begin paying back the loan. State Board of Education grants are up \$111 million primarily for general state aid to the schools.

Even with this revenue and expenditure activity the state still maintains a significant backlog of unpaid bills. As of December 31, 2003, the existing backlog totaled \$1.236 billion compared to \$1.430 billion last year. However, that

apparent improvement must be considered within the context of larger pending obligations this year compared to last year.

Base Revenues

Total base revenues in the General Funds (excluding short-term borrowing and the transfer from the Budget Stabilization Fund) totaled \$13.096 billion through the first half of fiscal year 2004, an increase of \$1.969 billion or 17.7%. State sources increased \$1.060 billion (11.6%) while federal sources were up \$909 million (46.3%).



Federal sources are up through the second quarter due to the acceleration of Medicaid payments following \$422 million in federal grants and increased Medicaid reimbursement rates.

The increase in state sources is the result of a \$908 million increase in transfers in and a \$152 million increase in cash receipts. The growth in transfers stems from the transfer of \$965 million from the Pension Contribution Fund. Lottery Fund transfers were up \$6 million while riverboat gambling transfers declined by \$24 million. Riverboat gambling transfers were offset by the increase in taxes which are deposited into the Common School Fund (\$70 million).

Corporate income tax cash receipts increased \$125 million through the first half of fiscal year 2004 followed by sales taxes (up \$117 million), riverboat taxes (\$70 million), public utility taxes (up \$47 million), and insurance taxes (up \$24 million). These increases were partially offset by declines of \$122 million in individual income taxes, \$75 million in other sources and \$36 million in inheritance taxes.

Cash receipts increased as \$287 million from the tax amnesty program was deposited into the General Funds. While there were amnesty receipts from various sources, the primary components were \$149 million in corporate income taxes, \$95 million in sales taxes, \$34 million in individual income taxes, and \$9 million in public utility taxes. If amnesty tax sources were excluded, the \$152 million increase in state cash receipts would be a \$135 million decline. Individual income taxes would have fallen by \$156 million; corporate income taxes instead of increasing would have declined by \$24 million. Sales taxes which increased by 3.8% would have grown only \$22 million or 0.7%.

Expenditures

Through December, General Funds expenditures totaled \$13.293 billion, \$1.147 billion or 9.4% above last year. Total General Funds appropriations are up \$1.240 billion from last year and 50.6% of current year appropriations have been spent in the first half of fiscal year 2004. Awards and grants spending is up \$717 million or 8.7% through the first six months while operations spending is down \$48 million or 1.4%

The largest increase in spending has occurred in Medicaid grant spending from the Department of Public Aid which is up \$668 million or 23.0% from \$2.907 billion in the first half of last year compared to \$3.575 billion this year. A closer look at the pace of Medicaid spending is revealing. Medicaid spending from current year appropriations of \$3.560 billion has exhausted 65.7% or nearly two-thirds of the appropriation with only half of the fiscal year completed. The spike in Medicaid spending is due to federal grants, and a concentrated effort to pay Medicaid vouchers in an effort to both address payment delays and to speed up federal matching dollars returned to the cash-strapped General Revenue Fund.

Other areas of grant spending which increased over the first half include State Board of Education grants (up \$111 million or 4.6%) and Teachers' Retirement System grants (up \$32 million or 6.9%). Appropriations are up \$315 million and \$53 million respectively.

Areas of grant spending which declined over the first half include Human Services grants (down \$39 million or 2.7%), higher education grants (down \$27 million or 6.7%) and all other grants (down \$28 million or 4.1%).

Regular state operations expenditures increased by \$14 million or 0.6% and higher education operations decreased by

\$62 million or 6.2% in the first six months of fiscal year 2004. However, the increase in regular state operations is somewhat misleading as \$80 million in state employees health insurance was vouchered at the end of December compared to January in the last fiscal year. Absent this action and with spending comparable to last year, regular state operations would have declined by \$66 million or 2.6%.

What Lies Ahead?

On the revenue side of the ledger, uncertainty remains in the second half of fiscal year 2004. Even though there are some mixed indications of an economic recovery nationally, no recovery has been realized yet at the state level for the major revenue sources tied to the economy. Also, the sale of certain state assets such as the Thompson Center in Chicago and the reselling of the Emerald Casino riverboat license were projected to bring in \$583 million for the year, however, no money has been realized from these transactions to date. Additionally, \$125 million that was to have been transferred from the Environmental Trust Fund is held up in litigation and it is still unknown whether or not all monies expected from administrative chargebacks and fee increases will be realized.

On the spending side, the pace of spending from current year appropriations is sure to slow as the largest component of spending (Medicaid) has exhausted nearly two-thirds of its spending authority through only half the year. Although the pace of spending from appropriations is certain to decelerate, the transfer of General Revenue Fund dollars will increase as set-asides to repay the \$1.5 billion in short-term borrowing from last year must be implemented. Currently, only \$325 million of the \$1.522 billion repayment has been reserved leaving \$1.197 billion to be repaid in the last half of fiscal year 2004.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2002	2003		FY 2003	FY 2004	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 125	\$ 256	\$ 131	\$ 256	\$ 317	\$ 61	23.8 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 654	\$ 614	\$ (40)	\$ 3,309	\$ 3,187	\$ (122)	(3.7) %
Corporate	107	146	39	287	412	125	43.6
Total, Income Taxes	761	760	(1)	3,596	3,599	3	0.1
Sales Taxes	554	598	44	3,116	3,233	117	3.8
Other Sources:							
Public Utility Taxes	70	119	49	474	521	47	9.9
Cigarette Taxes	33	33	0	200	200	0	0.0
Inheritance Tax (gross)	18	12	(6)	136	100	(36)	(26.5)
Liquor Gallonage Taxes	11	10	(1)	64	64	0	0.0
Insurance Tax and Fees	62	72	10	129	153	24	18.6
Corporation Franchise Tax and Fees	11	17	6	67	75	8	11.9
Investment Income	6	5	(1)	37	30	(7)	(18.9)
Cook County IGT	23	23	0	175	176	1	0.6
Riverboat Gambling Taxes	0	15	15	0	70	70	N/A
Other	114	40	(74)	209	134	(75)	(35.9)
Total, Other Sources	348	346	(2)	1,491	1,523	32	2.1
Total, Cash Receipts	\$ 1,663	\$ 1,704	\$ 41	\$ 8,203	\$ 8,355	\$ 152	1.9 %
Transfers In:							
Lottery Fund	\$ 44	\$ 49	\$ 5	\$ 244	\$ 250	\$ 6	2.5 %
State Gaming Fund	69	60	(9)	349	325	(24)	(6.9)
Pension Contribution Fund	0	148	148	0	965	965	N/A
Other Funds	41	22	(19)	369	330	(39)	(10.6)
Total, Transfers In	\$ 154	\$ 279	\$ 125	\$ 962	\$ 1,870	\$ 908	94.4 %
Total, State Sources	\$ 1,817	\$ 1,983	\$ 166	\$ 9,165	\$ 10,225	\$ 1,060	11.6 %
Federal Sources:							
Cash Receipts	\$ 434	\$ 274	\$ (160)	\$ 1,948	\$ 2,850	\$ 902	46.3 %
Transfers In	4	0	(4)	14	21	7	50.0
Total, Federal Sources	\$ 438	\$ 274	\$ (164)	\$ 1,962	\$ 2,871	\$ 909	46.3 %
Total, Base Revenues	\$ 2,255	\$ 2,257	\$ 2	\$ 11,127	\$ 13,096	\$ 1,969	17.7 %
Short-Term Borrowing	0	0	0	700	0	(700)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	0.0
Total, Revenues	\$ 2,255	\$ 2,257	\$ 2	\$ 12,053	\$ 13,322	\$ 1,269	10.5 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 570	\$ 598	\$ 28	\$ 2,390	\$ 2,501	\$ 111	4.6 %
Public Aid	391	482	91	2,907	3,575	668	23.0
Human Services	225	245	20	1,427	1,388	(39)	(2.7)
Teachers Retirement	78	82	4	466	498	32	6.9
Higher Education	31	20	(11)	404	377	(27)	(6.7)
All Other Grants	118	128	10	675	647	(28)	(4.1)
Total, Awards and Grants	1,413	1,555	142	8,269	8,986	717	8.7
Operations:							
Other Agencies	388	475	87	2,507	2,521	14	0.6
Higher Education	182	139	(43)	1,003	941	(62)	(6.2)
Total, Operations	570	614	44	3,510	3,462	(48)	(1.4)
Regular Transfers Out	120	136	16	922	875	(47)	(5.1)
All Other (Includes Prior Year Adjustments)	1	1	0	11	14	3	27.3
Vouchers Payable Adjustment	113	(284)	(397)	(566)	(274)	292	N/A
Total, Base Expenditures	\$ 2,217	\$ 2,022	\$ (195)	\$ 12,146	\$ 13,063	\$ 917	7.5 %
Transfers to Repay Short-Term Borrowing	0	145	145	0	230	230	N/A
Total, Expenditures	2,217	2,167	(50)	12,146	13,293	1,147	9.4
AVAILABLE CASH BALANCE, ENDING	\$ 163	\$ 346	\$ 183	\$ 163	\$ 346	\$ 183	112.3 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2002	2003		FY 2003	FY 2004	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 18	\$ 15	\$ (3)	\$ 0	\$ 1	\$ 1	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 607	\$ 557	\$ (50)	\$ 3,068	\$ 2,939	\$ (129)	(4.2) %
Corporate	99	96	(3)	266	313	47	17.7
Total, Income Taxes	706	653	(53)	3,334	3,252	(82)	(2.5)
Sales Taxes	416	411	(5)	2,341	2,391	50	2.1
Other Sources:							
Public Utility Taxes	62	103	41	421	463	42	10.0
Cigarette Taxes	22	21	(1)	131	130	(1)	(0.8)
Inheritance Tax (gross)	18	12	(6)	136	100	(36)	(26.5)
Liquor Gallonage Taxes	11	10	(1)	64	64	0	0.0
Insurance Tax and Fees	62	72	10	129	153	24	18.6
Corporation Franchise Tax and Fees	11	17	6	67	75	8	11.9
Investment Income	6	5	(1)	37	30	(7)	(18.9)
Cook County IGT	23	23	0	175	176	1	0.6
Other	113	40	(73)	205	130	(75)	(36.6)
Total, Other Sources	328	303	(25)	1,365	1,321	(44)	(3.2)
Total, Cash Receipts	\$ 1,450	\$ 1,367	\$ (83)	\$ 7,040	\$ 6,964	\$ (76)	(1.1) %
Transfers In:							
Regular Transfers In	\$ 40	\$ 22	\$ (18)	\$ 369	\$ 330	\$ (39)	(10.6) %
Pension Contribution Fund	0	148	148	0	965	965	N/A
Total, Transfers In	\$ 40	\$ 170	\$ 130	\$ 369	\$ 1,295	\$ 926	250.9 %
Total, State Sources	\$ 1,490	\$ 1,537	\$ 47	\$ 7,409	\$ 8,259	\$ 850	11.5 %
Federal Sources:							
Cash Receipts	\$ 434	\$ 274	\$ (160)	\$ 1,948	\$ 2,850	\$ 902	46.3 %
Transfers In	4	0	(4)	14	21	7	50.0
Total, Federal Sources	\$ 438	\$ 274	\$ (164)	\$ 1,962	\$ 2,871	\$ 909	46.3 %
Total, Base Revenues	\$ 1,928	\$ 1,811	\$ (117)	\$ 9,371	\$ 11,130	\$ 1,759	18.8 %
Short-Term Borrowing	0	0	0	700	0	(700)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	0.0
Total, Revenues	\$ 1,928	\$ 1,811	\$ (117)	\$ 10,297	\$ 11,356	\$ 1,059	10.3 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 391	\$ 482	\$ 91	\$ 2,907	\$ 3,575	\$ 668	23.0 %
State Board of Education	309	313	4	1,064	1,039	(25)	(2.3)
Human Services	225	245	20	1,427	1,388	(39)	(2.7)
Higher Education	31	20	(11)	343	280	(63)	(18.4)
Children and Family Services	49	59	10	329	312	(17)	(5.2)
All Other Grants	77	73	(4)	381	373	(8)	(2.1)
Total, Awards and Grants	1,082	1,192	110	6,451	6,967	516	8.0
Operations:							
Other Agencies	388	475	87	2,507	2,521	14	0.6
Higher Education	152	139	(13)	858	941	83	9.7
Total, Operations	540	614	74	3,365	3,462	97	2.9
Regular Transfers Out	177	136	(41)	1,002	936	(66)	(6.6)
All Other (Includes Prior Adjustments)	1	1	0	11	14	3	27.3
Vouchers Payable Adjustment	127	(284)	(411)	(551)	(274)	(277)	(50.3)
Total, Base Expenditures	\$ 1,927	\$ 1,659	\$ (268)	\$ 10,278	\$ 11,105	\$ 827	8.0 %
Transfers to Repay Short-Term Borrowing	0	145	145	0	230	230	N/A
Total, Expenditures	1,927	1,804	(123)	10,278	11,335	1,057	10.3
AVAILABLE CASH BALANCE, ENDING	\$ 19	\$ 22	\$ 3	\$ 19	\$ 22	\$ 3	15.8 %