

Comptroller's Quarterly

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EDITION 4, JULY 2002

WHERE'S THE BOTTOM?

From a financial standpoint, fiscal year 2002 will be remembered for the anemic General Funds revenue performance which sent the state's fiscal position into a tailspin. Among the General Funds revenue lowlights are the fact that revenues declined in nine out of the twelve months of the fiscal year and in each of the last six months. On a quarterly basis, General Funds revenues declined by \$328 million or 5.6% in the third quarter and \$315 million or 4.4% in the fourth quarter. For the year, "base" revenues (total revenues minus rainy day dollars) were \$728 million or 3.0% below fiscal year 2001 and over \$1.6 billion below the original estimates for fiscal year 2002. Unfortunately, there is no solid evidence that revenue performance has turned the corner.

As a result of anemic revenues, a \$781 million backlog of unpaid bills is being carried into the new fiscal year for the first time since the end of fiscal year 1993. Payment delays plagued the General Funds for nearly the entire fiscal year and reached as much as 35 days in mid-June. The delays going into fiscal year 2003 total 28 business days, or almost six weeks. This does not include delays or processing time at the agency level, which in some instances can add up to two months to the payment cycle.

At the end of June, the General Funds cash balance was \$256 million, or \$870 million less than what was in the bank at the end of fiscal year 2001. The dramatic drop in the cash balance was concentrated in the General Revenue Fund (the state's largest operating fund) where the cash balance dropped from \$683 million to \$0 over the year, accounting for nearly 79% of the drop

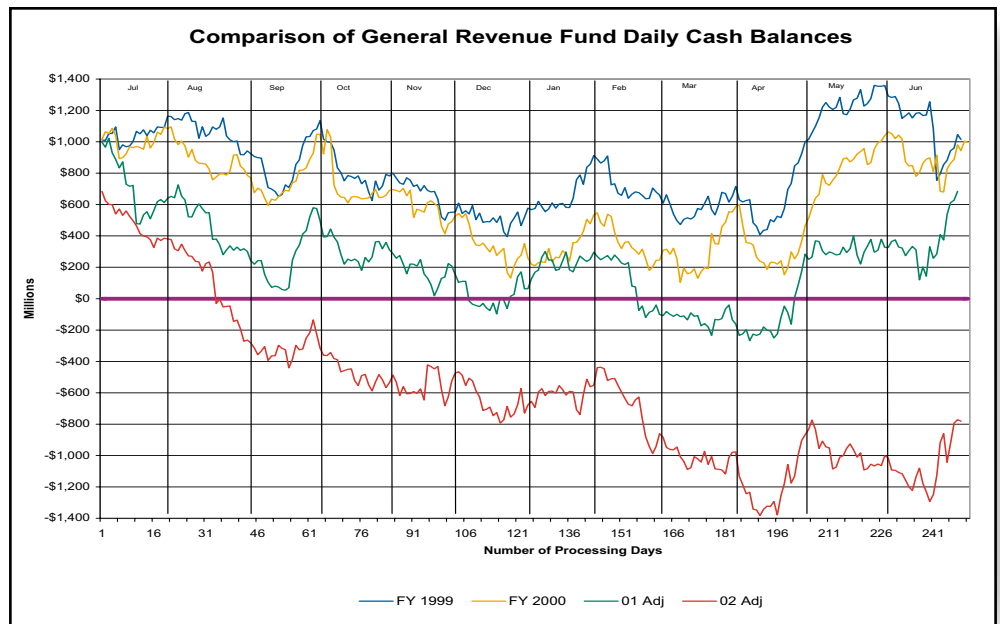
in the General Funds balance. In addition to the lack of a balance on June 30, 2002, there were \$781 million in bills on hand that could not be paid. The resulting effective General Revenue Fund (GRF) balance is almost \$1.5 billion below last year's ending balance.

Over the April-June quarter, revenues usually outpace spending demands by a wide margin resulting in an increase in the cash balance. While the GRF cash position also improved this year, that improvement moved the effective cash position from a negative \$1.132 billion at the end of March to a negative \$781 million at the end of June.

Revenues

General Funds revenues for fiscal year 2002 were \$23.604 billion, \$502 million or 2.1% below fiscal year 2001 revenues. This decline includes the \$226 million transfer from the Budget Stabilization Fund. Excluding this transfer, General Funds "base" revenues were down \$728 million or 3.0% from the prior year. After declining by \$85 million or 0.8% in the first half of fiscal year 2002, "base" revenues decreased by \$328 million or 5.6% in the third quarter and \$315 million or 4.4% in the fourth quarter.

The weakness in revenues was evident in those receipt sources tied most directly to the economy. Individual income taxes fell \$525 million (6.6%) and corporate income taxes decreased \$233 million (22.5%). The drop in the stock market and an increase in unemployment affected individual income taxes while corporate profits were down which impacted



business tax returns. Receipts from individual income taxes declined in nine of the twelve months of the fiscal year. During the last quarter, individual income taxes were down \$393 million accounting for almost 75% of the decline for the year. Corporate income tax receipts were down in eight of the months for the year.

Investment income was down \$138 million or 50.4% due primarily to lower investable balances and interest rates as the Federal Reserve lowered interest rates throughout the year in an effort to stimulate the economy.

Sales tax receipts increased by \$93 million or 1.6%. This growth is misleading because it does not account for the fiscal year 2001 six-month sales tax exemption for motor fuel. During the six months of the year (August to January) which would have been impacted by the exemption, sales tax receipts increased \$129 million. If tax receipts were adjusted for this factor, sales taxes would have also declined for the year. During the last five months of fiscal year 2002, sales taxes were down \$33 million.

Federal sources decreased \$62 million or 1.4% because of reduced federally reimbursable spending. Other sources declining were public utility taxes, inheritance tax receipts, and liquor taxes.

Sources reflecting an increase included other tax receipts which were up \$109 million or 24.7% due to a \$114 million increase in the deposit from the Build Illinois escrow account. Gambling fared well with Lottery Fund and Gaming Fund transfers up \$54 million and \$10 million respectively. Insurance taxes were up due in part to the decline in corporate income taxes which are allowed as deductions. Corporate franchise taxes also increased.

Expenditures

At the end of fiscal year 2002, General Funds spending totaled \$24.474 billion, \$23 million or 0.1% below last year. The \$23 million decrease includes an \$85 million increase in lapse period spending, a \$277 million decrease in spending

from current year appropriations, and a \$169 million increase in transfers out. Last year transfers out included a \$260 million transfer from the General Revenue Fund for the Illinois FIRST Program. This year, transfers out included a \$226 million transfer for repayment to the Budget Stabilization Fund.

The decrease in spending from current year appropriations is due to the lack of available cash to make payments. At the end of June, the Comptroller's office was holding \$781 million in vouchers due to the lack of cash in the General Funds compared to \$10 million in vouchers last June. Had cash been available, fiscal year 2002 General Funds spending would be up \$758 million or 3.1% - not down \$23 million or 0.1%.

Awards and grants spending increased \$275 million or 1.8% while operations increased \$308 million or 4.6%, transfers out increased \$169 million, vouchers payable increased \$771 million and all other spending decreased \$4 million. Expenditures exceeded revenues by \$870 million in fiscal year 2002 resulting in a decrease in the available cash balance from \$1.126 billion at the beginning of the fiscal year to \$256 million at the end.

Of the \$275 million increase in grant spending, the State Board of Education was up \$219 million while Teachers' Retirement System grants increased by \$89 million and higher education increased by \$87 million. Both Public Aid and the Department of Human Services grant spending declined from the prior year by \$117 million and \$10 million respectively.

Spending for operations totaled \$6.939 billion for fiscal year 2002, \$308 million higher than comparable expenditures last year. Higher education operations are up 5.1% or \$85 million, while all other operations increased \$223 million (4.5%).

Looking Ahead

Is the worst of the financial news behind us? The short-term answer depends in part on spending demands during the first quarter. It also depends on both the amount and timing of revenue growth in

fiscal year 2003. There is little doubt that first quarter spending demands will be unusually large. During the first quarter, spending demands generally exceed resources resulting in a sizeable drop in the available cash balance. This year, that mismatch will be compounded by the fact that \$781 million in unpaid bills has been carried forward from June. When combined with normal lapse period spending, the fiscal year 2002 General Funds budgetary balance (ending cash minus lapse period spending) will drop to an all-time low. This will put additional strain on 2003 finances as more of the current year's resources are used to pay last year's bills.

Although forecasts are generally calling for economic growth in fiscal year 2003, most of that growth is expected to occur during the last half of the year. Because of the close link between the state's largest revenue sources and the economy, there seems to be little reason to expect to see a sizeable jump in "base" revenue early in the year. Given the extended string of monthly declines in income and sales taxes, it is not clear that this trend is behind us.

While the economy might not add much to state coffers early in the year, there are three planned infusions of revenue that will help cash flow. The first is the transfer of approximately \$160 million of "surplus" balances from other state funds to the GRF on July 1. These amounts do not have to be repaid. The second is the transfer of \$226 million from the Budget Stabilization Fund. The third is a planned short-term loan.

These measures will likely alleviate, but not completely eliminate, the cash flow difficulties. Both the transfer from the Budget Stabilization Fund and the short-term loan have to be repaid by the end of the year and effectively shift resources from the end of the year to the beginning. The repayment requirements mean that payments for everyday operations will likely be delayed during the last half of the year. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2001	2002		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 750	\$ 292	\$ (458)	\$ 1,517	\$ 1,126	\$ (391)	(25.8) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 705	\$ 644	\$ (61)	\$ 7,996	\$ 7,471	\$ (525)	(6.6) %
Corporate	115	116	1	1,036	803	(233)	(22.5)
Total, Income Taxes	820	760	(60)	9,032	8,274	(758)	(8.4)
Sales Taxes	515	513	(2)	5,958	6,051	93	1.6
Other Sources:							
Public Utility Taxes	93	96	3	1,146	1,104	(42)	(3.7)
Cigarette Taxes	33	33	0	400	400	0	0.0
Inheritance Tax (gross)	36	29	(7)	361	329	(32)	(8.9)
Liquor Gallonage Taxes	11	11	0	124	122	(2)	(1.6)
Insurance Tax and Fees	48	56	8	246	272	26	10.6
Corporation Franchise Tax and Fees	16	19	3	146	159	13	8.9
Investment Income	18	6	(12)	274	136	(138)	(50.4)
Cook County IGT	23	23	0	245	245	0	0.0
Other	234	344	110	441	550	109	24.7
Total, Other Sources	512	617	105	3,383	3,317	(66)	(2.0)
Total, Cash Receipts	\$ 1,847	\$ 1,890	\$ 43	\$ 18,373	\$ 17,642	\$ (731)	(4.0) %
Transfers In:							
Lottery Fund	\$ 49	\$ 56	\$ 7	\$ 501	\$ 555	\$ 54	10.8 %
State Gaming Fund	50	50	0	460	470	10	2.2
Protest Fund	0	0	0	9	5	(4)	(44.4)
Other Funds	71	82	11	443	448	5	1.1
Total, Transfers In	\$ 170	\$ 188	\$ 18	\$ 1,413	\$ 1,478	\$ 65	4.6 %
Total, State Sources	\$ 2,017	\$ 2,078	\$ 61	\$ 19,786	\$ 19,120	\$ (666)	(3.4) %
Federal Sources:							
Cash Receipts	\$ 567	\$ 420	\$ (147)	\$ 4,205	\$ 4,133	\$ (72)	(1.7) %
Transfers In	19	50	31	115	125	10	8.7
Total, Federal Sources	\$ 586	\$ 470	\$ (116)	\$ 4,320	\$ 4,258	\$ (62)	(1.4) %
Total, Base Revenues	\$ 2,603	\$ 2,548	\$ (55)	\$ 24,106	\$ 23,378	\$ (728)	(3.0) %
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 2,603	\$ 2,548	\$ (55)	\$ 24,106	\$ 23,604	\$ (502)	(2.1) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 764	\$ 779	\$ 15	\$ 4,874	\$ 5,093	\$ 219	4.5 %
Public Aid	505	243	(262)	5,157	5,040	(117)	(2.3)
Human Services	178	152	(26)	2,618	2,608	(10)	(0.4)
Teachers Retirement	61	69	8	732	821	89	12.2
Higher Education	16	12	(4)	798	885	87	10.9
All Other Grants	88	81	(7)	1,413	1,420	7	0.5
Total, Awards and Grants	1,612	1,336	(276)	15,592	15,867	275	1.8
Operations:							
Other Agencies	423	421	(2)	4,956	5,179	223	4.5
Higher Education	42	75	33	1,675	1,760	85	5.1
Total, Operations	465	496	31	6,631	6,939	308	4.6
Transfers Out	128	357	229	2,216	2,159	(57)	(2.6)
All Other (Includes Prior Year Adjustments)	5	5	0	57	53	(4)	(7.0)
Vouchers Payable Adjustment	17	164	147	1	(770)	(771)	N/A
Total, Base Expenditures	\$ 2,227	\$ 2,358	\$ 131	\$ 24,497	\$ 24,248	\$ (249)	(1.0) %
Repayment to Budget Stabilization Fund	0	226	226	0	226	226	n/a
Total, Expenditures	2,227	2,584	357	24,497	24,474	(23)	(0.1)
AVAILABLE CASH BALANCE, ENDING	\$ 1,126	\$ 256	\$ (870)	\$ 1,126	\$ 256	\$ (870)	(77.3) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2001	2002		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 327	\$ 59	\$ (268)	\$ 997	\$ 683	\$ (314)	(31.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 654	\$ 597	\$ (57)	\$ 7,412	\$ 6,926	\$ (486)	(6.6) %
Corporate	106	108	2	960	744	(216)	(22.5)
Total, Income Taxes	760	705	(55)	8,372	7,670	(702)	(8.4)
Sales Taxes	387	385	(2)	4,476	4,545	69	1.5
Other Sources:							
Public Utility Taxes	81	85	4	1,020	981	(39)	(3.8)
Cigarette Taxes	22	22	0	260	260	0	0.0
Inheritance Tax (gross)	36	29	(7)	361	329	(32)	(8.9)
Liquor Gallonage Taxes	11	11	0	124	122	(2)	(1.6)
Insurance Tax and Fees	48	56	8	246	272	26	10.6
Corporation Franchise Tax and Fees	17	19	2	146	159	13	8.9
Investment Income	18	6	(12)	273	135	(138)	(50.5)
Cook County IGT	23	23	0	245	245	0	0.0
Other	234	344	110	434	544	110	25.3
Total, Other Sources	490	595	105	3,109	3,047	(62)	(2.0)
Total, Cash Receipts	\$ 1,637	\$ 1,685	\$ 48	\$ 15,957	\$ 15,262	\$ (695)	(4.4) %
Transfers In	71	82	11	452	454	2	0.4
Total, State Sources	\$ 1,708	\$ 1,767	\$ 59	\$ 16,409	\$ 15,716	\$ (693)	(4.2) %
Federal Sources:							
Cash Receipts	\$ 567	\$ 420	\$ (147)	\$ 4,205	\$ 4,133	\$ (72)	(1.7) %
Transfers In	19	50	31	115	125	10	8.7
Total, Federal Sources	\$ 586	\$ 470	\$ (116)	\$ 4,320	\$ 4,258	\$ (62)	(1.4) %
Total, Base Revenues	\$ 2,294	\$ 2,237	\$ (57)	\$ 20,729	\$ 19,974	\$ (755)	(3.6) %
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 2,294	\$ 2,237	\$ (57)	\$ 20,729	\$ 20,200	\$ (529)	(2.6) %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 505	\$ 243	\$ (262)	\$ 5,157	\$ 5,040	\$ (117)	(2.3) %
Elementary and Secondary Education	201	241	40	1,618	1,854	236	14.6
Human Services	178	152	(26)	2,618	2,608	(10)	(0.4)
Higher Education	14	11	(3)	657	709	52	7.9
Children and Family Services	23	22	(1)	636	604	(32)	(5.0)
All Other Grants	70	60	(10)	825	820	(5)	(0.6)
Total, Awards and Grants	991	729	(262)	11,511	11,635	124	1.1
Operations:							
Other Agencies	423	421	(2)	4,956	5,179	223	4.5
Higher Education	23	54	31	1,384	1,463	79	5.7
Total, Operations	446	475	29	6,340	6,642	302	4.8
Transfers Out	477	697	220	3,134	3,096	(38)	(1.2)
All Other (Includes Prior Adjustments)	5	5	0	57	53	(4)	(7.0)
Vouchers Payable Adjustment	17	164	147	1	(769)	(770)	N/A
Total, Base Expenditures	\$ 1,936	\$ 2,070	\$ 134	\$ 21,043	\$ 20,657	\$ (386)	(1.8) %
Repayment to Budget Stabilization Fund	0	226	226	0	226	226	n/a
Total, Expenditures	1,936	2,296	360	21,043	20,883	(160)	(0.8)
AVAILABLE CASH BALANCE, ENDING	\$ 685	\$ 0	\$ (685)	\$ 683	\$ 0	\$ (683)	(100.0) %