

Comptroller's Quarterly

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FISCAL YEAR 2005 MARKED BY STRONG ECONOMIC REVENUE PERFORMANCE

For fiscal year 2005, General Funds “base” revenues (total revenues less short-term borrowing and transfers from the Budget Stabilization Fund) totaled \$26.160 billion, a decrease of \$663 million or 2.5%. This expected decline in revenues, due to a reduced reliance on one-time sources compared to the prior year, was partially offset by the unexpected growth in economy driven revenues, primarily income and sales taxes. While the year ended with an increase in payables compared to fiscal year 2004, the state’s revenue performance concluded the year on a positive note because of the dramatic improvement in the Illinois economy. Compared to the prior year, the final two quarters of fiscal year 2005 saw double-digit increases in economy driven revenue sources.

In fiscal year 2004 there were several extraordinary General Funds revenues that were only available for that year. These included \$1.4 billion in Pension Obligation bond proceeds, \$1.2 billion in additional federal revenues (from the Federal Jobs and Growth Tax Relief Reconciliation Act and additional Medicaid spending) and \$287 million from the tax amnesty program. Therefore, there was approximately \$2.5 billion in base revenues that would not be available to the state in fiscal year 2005.

As a result, the fiscal year 2005 decline in base revenues was due to decreases of \$932 million in federal sources and \$1.139 billion in transfers in, while cash receipts from state sources increased \$1.408 billion. With the surprising strength of the economy, income and sales taxes easily surpassed the early projections of state revenue forecasters.

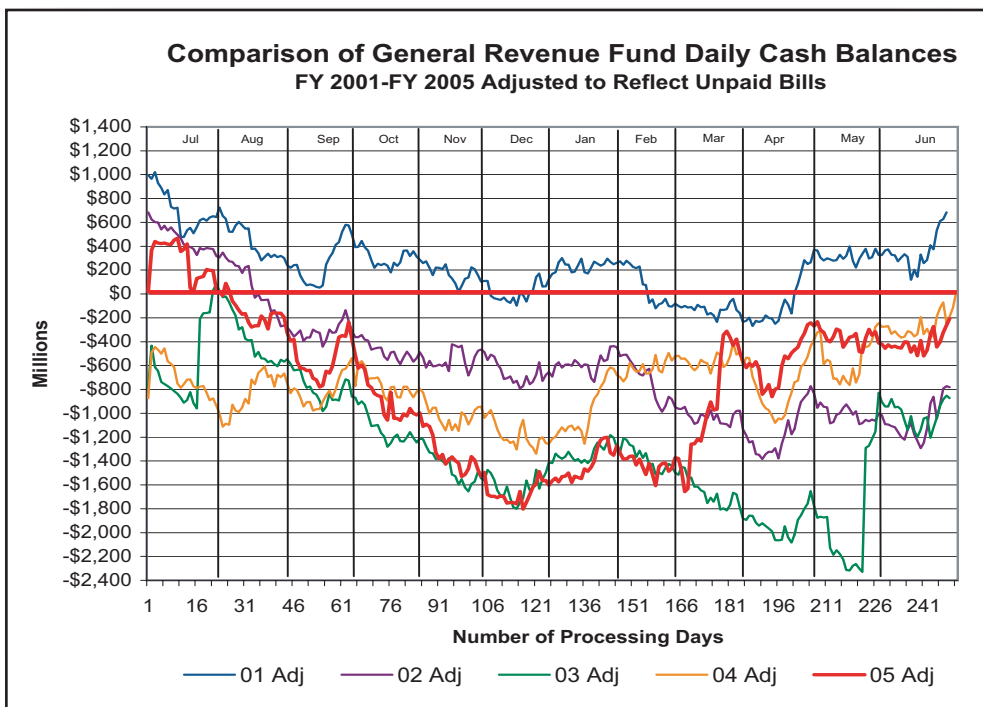
On June 30, 2005, the General Funds end-of-year available balance was \$497 million. This represents an increase of \$315 million over the ending balance last year. While the school funds balances also increased, the General Revenue Fund (GRF) balance grew from \$24 million to \$198 million. It should be noted that the GRF balance includes \$194 million in charge-back and fee transfers which have not been recognized by the State Treasurer due to that office’s concerns about the constitutionality of these transactions. Therefore, the State Comptroller is unable to utilize these monies until resolution of the issues regarding the transfers.

The state issued \$765 million in short-term General Obligation Certificates in March

2005 and repaid \$770 million on June 3, 2005. The proceeds were deposited into 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.

Base Revenues

For fiscal year 2005, total base revenues in the General Funds of \$26.160 billion are \$663 million or 2.5% below revenues last year. As stated above, the anticipated decline due to one-time revenue sources utilized in



fiscal year 2004 was partially offset by the dramatic growth in the economy driven revenues. Federal sources declined \$932 million or 18.0% and transfers in decreased \$1.139 billion or 31.2%, while cash receipts from state sources increased \$1.408 billion or 7.8%.

The decline in federal sources is due primarily to the federal monies available last year when the state received a \$422 million relief grant and Medicaid reimbursement rates were temporarily increased. In addition, this year's reduced spending on federal match eligible items has resulted in less federal reimbursement.

Transfers from the Pension Contribution Fund, a one-time revenue source last year, are down \$1.395 billion. This decline was partially offset by a one-time transfer of \$433 million from the Medicaid Provider Relief Fund. Lottery transfers were up \$44 million while riverboat gambling transfers increased \$17 million. The increase in riverboat gambling does not include the receipts from the 2003 tax increase that are deposited directly into the Common School Fund and are up \$19 million. There were \$223 million in chargeback transfers and \$22 million in fee transfers which are down from last year.

Cash receipt growth was led by the aforementioned improvement in economy driven sources. Individual income taxes were up \$707 million or 9.7% and corporate income taxes increased \$236 million or 25.2%. Sales taxes grew 4.2% or \$264 million.

While these increases are by themselves significant, fiscal year 2004 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 \$742 million, corporate income taxes up \$388 million, and sales taxes up \$358 million. Income tax growth in fiscal year 2005 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 cash receipts to the General Funds in fiscal year 2005 increased \$201 million or 5.8%. 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. Insurance taxes and fees decreased \$20 million due to the increase in corporate income tax payments which are allowed as a deduction.

Base Expenditures

At the end of fiscal year 2005, base General Funds spending (which excludes transfers to repay short-term borrowing) totaled \$25.845 billion, \$123 million or 0.5% below the previous year. When repayment for short-term borrowing is factored in, fiscal year 2005 expenditures were actually \$684 million above last year. General Funds appropriations are up \$353 million or 1.5% over last year.

Medicaid grant spending by the Department of Public Aid of \$4.859 billion is down \$688 million or 12.4% from last year. The decline in Medicaid spending is in part due to higher spending last fiscal year done in order to take advantage of the higher federal Medicaid reimbursement rates. In addition, 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. These two factors 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 \$111 million or 7.2%) and higher education grants (down \$4 million or 0.5%).

Areas of spending which increased include State Board of Education grants (up \$330 million or 6.1%), Human Services grants (up \$129 million or 4.9%), regular state agency operations (up \$101 million or 2.1%), and transfers out (up \$1.139 billion or 45.2%). The large increase in transfers out is due pri-

marily 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?

Although the economy driven revenues performed well throughout the past fiscal year, the state's cash position at the end of fiscal year 2005 is not as strong as it was at the end of the prior fiscal year. Unpaid bills on hand totaling \$405 million will need to be paid in addition to normal lapse period and regular operational spending demands during the first quarter of fiscal year 2006. Also anticipated is the transmittal of substantial Medicaid obligations from the Department of Public Aid (now known as the Department of Healthcare and Family Services) during July and August, which are expected to create significant cash management challenges for the state for the first quarter of fiscal year 2006 and beyond.

It should be noted that in or near the first quarter of each of the past three fiscal years, (July 2002, May 2003, and June 2004) the state has borrowed funds on a short-term basis to provide liquidity to the General Funds when a combination of lapse period spending and Medicaid needs have historically exceeded available revenues. This practice of a first quarter cash infusion has enabled the state to reduce bill backlogs and payment delays to all vendors, particularly Medicaid providers. Absent any such similar revenue infusion, July and August payment cycles will likely be extended compared to what has occurred in recent fiscal years. Based on recent performance, there are grounds for cautious optimism in regards to continued revenue growth in fiscal year 2006. Sustained growth will be necessary to allow improvement in the state's overall fiscal condition during the coming year.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2004	2005		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 134	\$ 360	\$ 226	\$ 317	\$ 182	\$ (135)	(42.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 631	\$ 698	\$ 67	\$ 7,272	\$ 7,979	\$ 707	9.7 %
Corporate	117	195	78	936	1,172	236	25.2
Total, Income Taxes	748	893	145	8,208	9,151	943	11.5
Sales Taxes	556	564	8	6,331	6,595	264	4.2
Other Sources:							
Public Utility Taxes	102	91	(11)	1,079	1,056	(23)	(2.1)
Cigarette Taxes	33	33	0	400	450	50	12.5
Inheritance Tax (gross)	21	30	9	222	310	88	39.6
Liquor Gallonage Taxes	13	16	3	127	147	20	15.7
Insurance Tax and Fees	70	63	(7)	362	342	(20)	(5.5)
Corporation Franchise Tax and Fees	16	22	6	163	181	18	11.0
Investment Income	3	10	7	55	73	18	32.7
Cook County IGT	23	23	0	428	433	5	1.2
Riverboat Gambling Taxes	16	17	1	133	152	19	14.3
Other	118	95	(23)	474	500	26	5.5
Total, Other Sources	415	400	(15)	3,443	3,644	201	5.8
Total, Cash Receipts	\$ 1,719	\$ 1,857	\$ 138	\$ 17,982	\$ 19,390	\$ 1,408	7.8 %
Transfers In:							
Lottery Fund	\$ 66	\$ 74	\$ 8	\$ 570	\$ 614	\$ 44	7.7 %
State Gaming Fund	53	56	3	530	547	17	3.2
Pension Contribution Fund	0	0	0	1,395	0	(1,395)	(100.0)
Other Funds	278	175	(103)	1,157	1,352	195	16.9
Total, Transfers In	\$ 397	\$ 305	\$ (92)	\$ 3,652	\$ 2,513	\$ (1,139)	(31.2) %
Total, State Sources	\$ 2,116	\$ 2,162	\$ 46	\$ 21,634	\$ 21,903	\$ 269	1.2 %
Federal Sources	351	395	44	5,189	4,257	(932)	(18.0)
Total, Base Revenues	\$ 2,467	\$ 2,557	\$ 90	\$ 26,823	\$ 26,160	\$ (663)	(2.5) %
Short-Term Borrowing	0	0	0	0	765	765	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	982	982	N/A
Total, Revenues	\$ 2,467	\$ 2,557	\$ 90	\$ 27,049	\$ 28,183	\$ 1,134	4.2 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 822	\$ 869	\$ 47	\$ 5,383	\$ 5,713	\$ 330	6.1 %
Public Aid	301	322	21	5,547	4,859	(688)	(12.4)
Human Services	137	134	(3)	2,645	2,774	129	4.9
Teachers Retirement	0	81	81	745	933	188	25.2
Higher Education	31	27	(4)	769	765	(4)	(0.5)
All Other Grants	101	70	(31)	1,147	1,140	(7)	(0.6)
Total, Awards and Grants	1,392	1,503	111	16,236	16,184	(52)	(0.3)
Operations:							
Other Agencies	386	415	29	4,815	4,916	101	2.1
Higher Education	36	22	(14)	1,542	1,431	(111)	(7.2)
Total, Operations	422	437	15	6,357	6,347	(10)	(0.2)
Regular Transfers Out	207	221	14	2,519	3,658	1,139	45.2
All Other (Includes Prior Year Adjustments)	3	1	(2)	(15)	57	72	N/A
Vouchers Payable Adjustment	304	77	(227)	871	(401)	(1,272)	N/A
Total, Base Expenditures	\$ 2,328	\$ 2,239	\$ (89)	\$ 25,968	\$ 25,845	\$ (123)	(0.5) %
Transfers to Repay Short-Term Borrowing	91	181	90	1,216	1,044	(172)	(14.1)
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	979	979	N/A
Total, Expenditures	\$ 2,419	\$ 2,420	\$ 1	\$ 27,184	\$ 27,868	\$ 684	2.5 %
AVAILABLE CASH BALANCE, ENDING	\$ 182	\$ 497	\$ 315	\$ 182	\$ 497	\$ 315	173.1 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2004	2005		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 34	\$ 103	\$ 69	\$ 1	\$ 24	\$ 23	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 584	\$ 646	\$ 62	\$ 6,725	\$ 7,396	\$ 671	10.0 %
Corporate	109	181	72	798	1,087	289	36.2
Total, Income Taxes	693	827	134	7,523	8,483	960	12.8
Sales Taxes	418	424	6	4,715	4,946	231	4.9
Other Sources:							
Public Utility Taxes	91	81	(10)	967	953	(14)	(1.4)
Cigarette Taxes	21	22	1	258	291	33	12.8
Inheritance Tax (gross)	21	30	9	222	310	88	39.6
Liquor Gallonage Taxes	13	16	3	127	147	20	15.7
Insurance Tax and Fees	70	63	(7)	362	342	(20)	(5.5)
Corporation Franchise Tax and Fees	16	22	6	163	181	18	11.0
Investment Income	3	9	6	55	73	18	32.7
Cook County IGT	23	23	0	428	433	5	1.2
Other	118	95	(23)	468	494	26	5.6
Total, Other Sources	376	361	(15)	3,050	3,224	174	5.7
Total, Cash Receipts	\$ 1,487	\$ 1,612	\$ 125	\$ 15,288	\$ 16,653	\$ 1,365	8.9 %
Transfers In:							
Regular Transfers In	\$ 280	\$ 175	\$ (105)	\$ 1,159	\$ 1,308	\$ 149	12.9 %
Pension Contribution Fund	0	0	0	1,395	0	(1,395)	(100.0)
Total, Transfers In	\$ 280	\$ 175	\$ (105)	\$ 2,554	\$ 1,308	\$ (1,246)	(48.8) %
Total, State Sources	\$ 1,767	\$ 1,787	\$ 20	\$ 17,842	\$ 17,961	\$ 119	0.7 %
Federal Sources:	351	395	44	5,189	4,257	(932)	(18.0)
Total, Base Revenues	\$ 2,118	\$ 2,182	\$ 64	\$ 23,031	\$ 22,218	\$ (813)	(3.5) %
Short-Term Borrowing	0	0	0	0	765	765	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	276	50	22.1
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	982	982	N/A
Total, Revenues	\$ 2,118	\$ 2,182	\$ 64	\$ 23,257	\$ 24,241	\$ 984	4.2 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 301	\$ 322	\$ 21	\$ 5,547	\$ 4,859	\$ (688)	(12.4) %
Elementary and Secondary Education	259	261	2	1,929	2,024	95	4.9
Human Services	137	134	(3)	2,645	2,774	129	4.9
Higher Education	31	27	(4)	673	765	92	13.7
Children and Family Services	48	22	(26)	512	506	(6)	(1.2)
All Other Grants	53	70	17	690	844	154	22.3
Total, Awards and Grants	829	836	7	11,996	11,772	(224)	(1.9)
Operations:							
Other Agencies	386	415	29	4,815	4,917	102	2.1
Higher Education	36	22	(14)	1,367	1,383	16	1.2
Total, Operations	422	437	15	6,182	6,300	118	1.9
Regular Transfers Out	479	555	76	2,984	4,316	1,332	44.6
All Other (Includes Prior Adjustments)	3	1	(2)	(15)	57	72	N/A
Vouchers Payable Adjustment	304	77	(227)	871	(401)	(1,272)	N/A
Total, Base Expenditures	\$ 2,037	\$ 1,906	\$ (131)	\$ 22,018	\$ 22,044	\$ 26	0.1 %
Transfers to Repay Short-Term Borrowing	91	181	90	1,216	1,044	(172)	(14.1)
Cash Flow Transfer - Hospital Provider Fund	0	0	0	0	979	979	N/A
Total, Expenditures	2,128	2,087	(41)	23,234	24,067	833	3.6
AVAILABLE CASH BALANCE, ENDING	\$ 24	\$ 198	\$ 174	\$ 24	\$ 198	\$ 174	725.0 %