

Comptroller's Quarterly

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FISCAL PROBLEMS CONTINUE

Outlook Deteriorating

Despite the one-time infusion of more than \$1 billion, the State's General Revenue Fund (GRF) is still experiencing cash flow difficulties with almost \$900 million in unpaid bills at the end of the first quarter. Without the infusion, the GRF backlog would be almost \$2 billion.

During July, the State entered into a \$700 million short-term loan to prop up the GRF, transferred \$156 million in surplus money from other funds, and transferred \$226 million from the Budget Stabilization Fund. These revenues were 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 accumulate again.

Revenues continue to defy expectations, remaining sluggish in the first quarter and under performing the forecasted level by \$81 million. In and of itself, this level of shortfall is not particularly alarming. However, it appears that income taxes are again trending down. This is having a negative drag on overall receipts and it appears that the gap between expected revenues and actual receipts may be widening.

Base Revenues Increase 4.3%

Total base revenues in the General Funds (excluding short-term borrowing and the transfer from the Budget Stabilization Fund) totaled \$5.546 billion through the first quarter, an increase of \$227 million or 4.3%.

State sources increased \$155 million (3.5%) while federal sources were up \$72 million (7.8%). For September, base revenues fell \$73 million (state sources up \$1 million and federal sources down \$74 million).

The quarterly increase in state sources is the result of a \$200 million increase in transfers in and a \$45 million drop in cash receipts. The growth in transfers in stems from the July transfer of \$156 million from various funds as a cash infusion into the GRF. Transfers from the Gaming Fund are up \$30 million due to the riverboat tax increase.

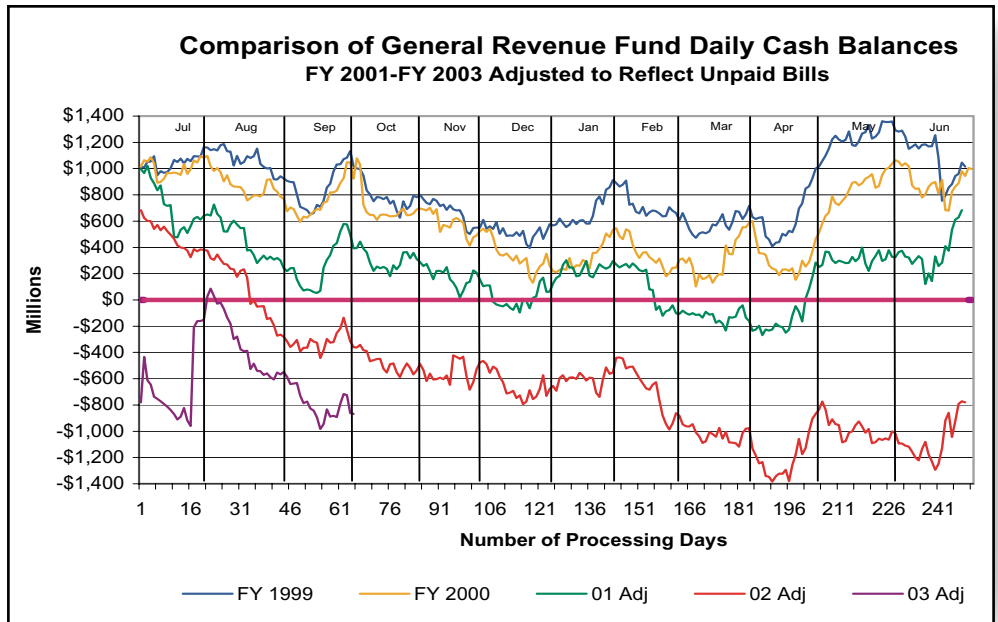
Declining receipts were led by individ-

ual income taxes and investment income which fell \$31 million each. Inheritance tax receipts are down \$22 million while cigarette taxes are down \$7 million due to all the buying before the tax increase. Partially offsetting the declines were increases of \$28 million in sales taxes and \$15 million in insurance taxes.

Federal sources are up through the first quarter due to the surge of Medicaid payments following the short-term borrowing in July. For the year, federal sources are expected to decrease by \$183 million.

Expenditures Up 6.5%

Through September, General Funds expenditures totaled \$6.454 billion, \$395 million or 6.5% above last year. With total General Funds appropriations down \$1.111 billion from last year it



would appear surprising on the surface that spending is up by \$395 million.

A closer look at the pace of spending, in particular Medicaid spending through the first quarter, is revealing. Medicaid spending of \$1.681 billion is up \$435 million or 32.9% and has exhausted 34.0% of current year appropriations compared to just 23.7% in fiscal year 2002. The spike in Medicaid spending is due, in part, 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 quarter include State Board of Education grants (up \$49 million or 5.1%), Teachers' Retirement System grants (up \$28 million or 13.7%) and higher education operations (up \$14 million or 3.1%).

Areas of spending showing declines over the first quarter include higher education grants (down \$52 million or 23.3%), Human Services grants (down \$7 million or 0.9%), all other grants (down \$164 million or 32.2%), state operations expenditures other than higher education (down \$46 million or 3.4%), transfers out (down \$55 million or 10.3%) and all other spending - which includes permanent improvements, refunds and prior year adjustments (down \$22 million or 81.5%).

Through the first quarter of fiscal year 2003, 24.0% of current year's appropriations have been expended compared to only 21.4% in fiscal year 2002. Non-Medicaid spending has used 21.2% of appropriations in 2003, slightly higher than the 20.8% expended in 2002.

What Lies Ahead?

The latest release of the Chicago Purchasing Manager's Index reports that Index fell sharply to 48.1 in September from 54.9 in August. Any reading below 50 is an indication of contracting regional activity. The current reading is of concern in that it supports the idea that the economy continues to struggle and may not be far from falling back into recession. Perhaps of even greater concern is the impact that a slowing manufacturing sector will have in Illinois both on the economy and state revenues.

Income and sales taxes are particularly vulnerable. Since corporate income taxes depend on taxable profits, any weakening in the profit outlook is troubling. Since corporate estimated payments continue to slide, it is increasingly clear that businesses do not expect the profit picture to improve soon.

Personal income taxes have three components: estimated payments (based on non-wage income such as capital gains and interest earnings); withholdings (based on employment and wages); and final payments (reconciliation between what is owed and what has been paid). Estimated payments have been extremely weak for more than a year and the continued weakness in the stock markets indicates that this component is not likely to add much growth to income tax receipts in the near future. Withholdings have also been weak due to falling employment levels, and until employment reaches pre-recession levels, this component is not likely to add much growth. Weakness in both estimated payments and withholdings, coupled with the poor near-term employment outlook, make it look more and more likely that personal income tax growth will be minimal this year.

Sales tax receipts are related to consumer spending which is influenced by income (or potential income). While there have been times when sales taxes have grown slightly faster than income taxes in the past, minimal growth in income taxes is not likely to be accompanied by strong growth in sales tax revenues.

The budgeted revenue forecast was predicated on base revenue growth of 4.3%, including the one-time infusion of revenues from interfund transfers. Although first quarter revenues were up 4.3%, that increase includes a 7.8% jump in federal receipts due to the surge in Medicaid payments. Through September, cash receipts from state sources are down 1.1% compared to projected annual growth of 4.8%. This means that cash receipts will have to increase 6.6% to meet the current estimate.

In order to attain the current revenue estimate for income taxes, individual income taxes will have to grow 6.9% and corporate at 4.7%. Sales taxes will have to increase at 7.7% and investment income at 81.4%.

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 these growth rates.

As a closing note, the books have been closed on fiscal year 2002. The final results indicate that the State set two new General Funds records - the largest amount of lapse period spending (\$1.476 billion) and the lowest budgetary balance (negative \$1.220 billion). This means that \$1.220 billion of fiscal year 2003 revenues were used to pay 2002 bills. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2001	2002		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 485	\$ 336	\$ (149)	\$ 1,126	\$ 256	\$ (870)	(77.3) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 659	\$ 641	\$ (18)	\$ 1,679	\$ 1,648	\$ (31)	(1.8) %
Corporate	125	120	(5)	159	156	(3)	(1.9)
Total, Income Taxes	784	761	(23)	1,838	1,804	(34)	(1.8)
Sales Taxes	494	507	13	1,533	1,561	28	1.8
Other Sources:							
Public Utility Taxes	68	72	4	233	232	(1)	(0.4)
Cigarette Taxes	33	26	(7)	100	93	(7)	(7.0)
Inheritance Tax (gross)	33	20	(13)	98	76	(22)	(22.4)
Liquor Gallonage Taxes	6	10	4	25	31	6	24.0
Insurance Tax and Fees	42	54	12	48	63	15	31.3
Corporation Franchise Tax and Fees	13	12	(1)	32	34	2	6.3
Investment Income	12	5	(7)	50	19	(31)	(62.0)
Cook County IGT	23	23	0	77	77	0	0.0
Other	18	17	(1)	57	56	(1)	(1.8)
Total, Other Sources	248	239	(9)	720	681	(39)	(5.4)
Total, Cash Receipts	\$ 1,526	\$ 1,507	\$ (19)	\$ 4,091	\$ 4,046	\$ (45)	(1.1) %
Transfers In:							
Lottery Fund	\$ 45	\$ 40	\$ (5)	\$ 118	\$ 119	\$ 1	0.8 %
State Gaming Fund	50	60	10	130	160	30	23.1
Other Funds	15	30	15	56	225	169	301.8
Total, Transfers In	\$ 110	\$ 130	\$ 20	\$ 304	\$ 504	\$ 200	65.8 %
Total, State Sources	\$ 1,636	\$ 1,637	\$ 1	\$ 4,395	\$ 4,550	\$ 155	3.5 %
Federal Sources:							
Cash Receipts	\$ 331	\$ 260	\$ (71)	\$ 902	\$ 986	\$ 84	9.3 %
Transfers In	8	5	(3)	22	10	(12)	(54.5)
Total, Federal Sources	\$ 339	\$ 265	\$ (74)	\$ 924	\$ 996	\$ 72	7.8 %
Total, Base Revenues	\$ 1,975	\$ 1,902	\$ (73)	\$ 5,319	\$ 5,546	\$ 227	4.3 %
Short-Term Borrowing	0	0	0	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 1,975	\$ 1,902	\$ (73)	\$ 5,319	\$ 6,472	\$ 1,153	21.7 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 492	\$ 467	\$ (25)	\$ 966	\$ 1,015	\$ 49	5.1 %
Public Aid	385	543	158	1,275	1,694	419	32.9
Human Services	203	260	57	799	792	(7)	(0.9)
Teachers Retirement	68	78	10	205	233	28	13.7
Higher Education	18	66	48	223	171	(52)	(23.3)
All Other Grants	133	107	(26)	510	346	(164)	(32.2)
Total, Awards and Grants	1,299	1,521	222	3,978	4,251	273	6.9
Operations:							
Other Agencies	439	421	(18)	1,370	1,324	(46)	(3.4)
Higher Education	173	178	5	454	468	14	3.1
Total, Operations	612	599	(13)	1,824	1,792	(32)	(1.8)
Transfers Out	145	134	(11)	532	477	(55)	(10.3)
All Other (Includes Prior Year Adjustments)	(2)	(2)	0	27	5	(22)	(81.5)
Vouchers Payable Adjustment	20	(288)	(308)	(302)	(71)	231	N/A
Total, Base Expenditures	\$ 2,074	\$ 1,964	\$ (110)	\$ 6,059	\$ 6,454	\$ 395	6.5 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,074	1,964	(110)	6,059	6,454	395	6.5
AVAILABLE CASH BALANCE, ENDING	\$ 386	\$ 274	\$ (112)	\$ 386	\$ 274	\$ (112)	(29.0) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2001	2002		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 43	\$ 40	\$ (3)	\$ 683	\$ 0	\$ (683)	(100.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 610	\$ 594	\$ (16)	\$ 1,557	\$ 1,528	\$ (29)	(1.9) %
Corporate	116	111	(5)	147	144	(3)	(2.0)
Total, Income Taxes	726	705	(21)	1,704	1,672	(32)	(1.9)
Sales Taxes	372	381	9	1,152	1,173	21	1.8
Other Sources:							
Public Utility Taxes	60	64	4	206	206	0	0.0
Cigarette Taxes	22	17	(5)	65	61	(4)	(6.2)
Inheritance Tax (gross)	33	20	(13)	98	76	(22)	(22.4)
Liquor Gallonage Taxes	6	10	4	25	31	6	24.0
Insurance Tax and Fees	42	54	12	48	63	15	31.3
Corporation Franchise Tax and Fees	13	12	(1)	32	34	2	6.3
Investment Income	12	5	(7)	50	19	(31)	(62.0)
Cook County IGT	23	23	0	77	77	0	0.0
Other	17	17	0	55	54	(1)	(1.8)
Total, Other Sources	228	222	(6)	656	621	(35)	(5.3)
Total, Cash Receipts	\$ 1,326	\$ 1,308	\$ (18)	\$ 3,512	\$ 3,466	\$ (46)	(1.3) %
Transfers In	15	30	15	56	225	169	301.8
Total, State Sources	\$ 1,341	\$ 1,338	\$ (3)	\$ 3,568	\$ 3,691	\$ 123	3.4 %
Federal Sources:							
Cash Receipts	\$ 331	\$ 260	\$ (71)	\$ 902	\$ 986	\$ 84	9.3 %
Transfers In	8	5	(3)	22	10	(12)	(54.5)
Total, Federal Sources	\$ 339	\$ 265	\$ (74)	\$ 924	\$ 996	\$ 72	7.8 %
Total, Base Revenues	\$ 1,680	\$ 1,603	\$ (77)	\$ 4,492	\$ 4,687	\$ 195	4.3 %
Short-Term Borrowing	0	0	0	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	0	0	0	226	226	N/A
Total, Revenues	\$ 1,680	\$ 1,603	\$ (77)	\$ 4,492	\$ 5,613	\$ 1,121	25.0 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 385	\$ 543	\$ 158	\$ 1,275	\$ 1,694	\$ 419	32.9 %
Elementary and Secondary Education	223	206	(17)	420	471	51	12.1
Human Services	203	260	57	799	792	(7)	(0.9)
Higher Education	17	66	49	169	127	(42)	(24.9)
Children and Family Services	73	59	(14)	187	162	(25)	(13.4)
All Other Grants	60	55	(5)	324	199	(125)	(38.6)
Total, Awards and Grants	961	1,189	228	3,174	3,445	271	8.5
Operations:							
Other Agencies	439	421	(18)	1,371	1,324	(47)	(3.4)
Higher Education	151	157	6	366	388	22	6.0
Total, Operations	590	578	(12)	1,737	1,712	(25)	(1.4)
Transfers Out	145	134	(11)	531	476	(55)	(10.4)
All Other (Includes Prior Adjustments)	(1)	(2)	(1)	27	5	(22)	(81.5)
Vouchers Payable Adjustment	20	(282)	(302)	(302)	(51)	251	N/A
Total, Base Expenditures	\$ 1,715	\$ 1,617	\$ (98)	\$ 5,167	\$ 5,587	\$ 420	8.1 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	1,715	1,617	(98)	5,167	5,587	420	8.1
AVAILABLE CASH BALANCE, ENDING	\$ 8	\$ 26	\$ 18	\$ 8	\$ 26	\$ 18	225.0 %