

Cash Flow Problems Persist Despite Improved Economic Revenues

Receipts from economy-driven sources deposited into the General Funds have seen moderate improvement from the previous year as individual income tax receipts were up 4.7%, corporate income tax receipts grew by 56.0% and sales taxes receipts increased 6.1%.

While this suggests needed good news, such growth is necessary and will have to be sustained in order to compensate for the loss of last year's one-time revenues. As a result of those missing sources, base revenues are down 2.3% after the first quarter compared to last year. In last year's first quarter, the state received the first half of \$422 million in federal grants under the Jobs and Growth Tax Relief Reconciliation Act along with increased Medicaid reimbursements from the Comptroller's Medicaid Relief Plan. The \$533 million decrease in federal sources seen in the first quarter was only partially offset by increases in state revenues. Economy-driven and other receipt sources increased \$436 million and transfers into the General Funds were down \$58 million. A \$433 million transfer from the Medicaid Provider Relief Fund (to pay debt service on the June 2004 \$850 million short-term borrowing) and other transfers partially offset the \$521 million drop in Pension Contribution Fund transfers.

Expenditures decreased in the first quarter compared to the prior year by \$489 million or 7.0%. There was an \$835 million decline in the quarter in Public Aid spending because of the concerted effort to pay Medicaid bills last year. This decrease was partially offset by an increase in transfers out of the General Funds to repay short-term borrowing for Medicaid.

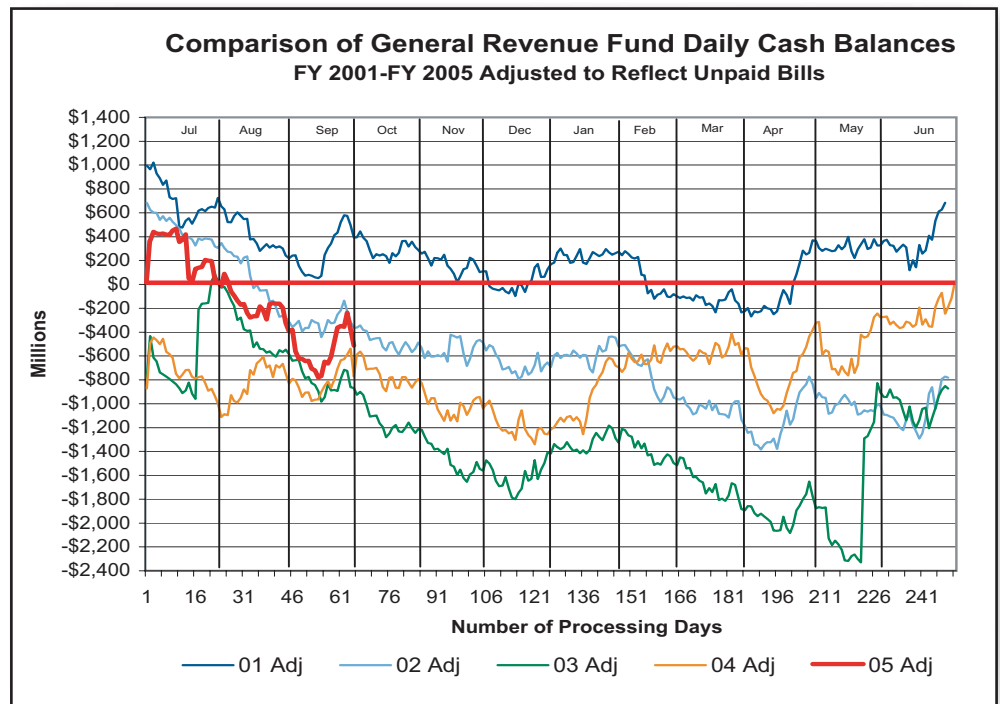
At the end of the first quarter, the state's backlog of unpaid bills was not as large as at the end of the first quarter of the previous two years. This reflected a \$258 million improvement in the cash flow position for the state but fiscal problems remain. As seen in the chart, the adjusted General Revenue Fund (GRF) balance was a negative \$514 million with the balance of \$22 million and a backlog totaling \$536 million.

Base Revenues Decrease 2.3%

Total base revenues into the General Funds of \$6.558 billion were \$155 million or 2.3% below first quarter revenues last year. Federal sources declined \$533 million or 32.2% while state revenues increased \$378 million or 7.5%.

The decrease in federal revenues was due primarily to the 2003 federal bailout. Under the legislation, the state received a \$211 million relief grant in the first quarter and Medicaid reimbursement rates were increased from 50% to 53%. With the Comptroller's Office implementing an aggressive cash management strategy, the state paid over \$2.1 billion in Public Aid Medicaid obligations in the first quarter of last year compared to just under \$1.3 billion this year. Therefore, the loss of the grant and less Medicaid reimbursements resulted in a decline in federal revenues.

State sources grew as cash receipts increased \$436 million or 10.9% and transfers in decreased \$58 million or 5.5%. Transfers from the Pension Contribution Fund, a one-



time revenue source last year, were down \$521 million. This decline was partially offset by a one-time transfer of \$433 million from the Medicaid Provider Relief Fund. Lottery transfers were up \$35 million while riverboat gambling transfers fell \$12 million. There were \$39 million in chargeback transfers in September.

Cash receipts growth was a result of an improving economy, legislated enhancements, and tax changes. Individual income tax receipts increased \$75 million or 4.7%. A portion of this increase is due to the reduction of the percent allocated to the Refund Fund from 11.7% to 10%. Including the Refund Fund, individual income tax collections were up 3.1%. Corporate income tax receipts grew from \$134 million in the first quarter last year to \$209 million this year. The 56.0% growth was due in part to the reduction in the Refund Fund percent from 32% to 24%, as total corporate income tax receipts (including the Refund Fund) increased 41.8%. Legislation impacting corporate tax liability as well as increases in corporate profits appear to have accounted for most of the growth. Sales taxes through the first quarter of fiscal year 2005 totaled \$1.673 billion, an increase of \$96 million or 6.1%. This growth may be due to increased gas prices and an increase in business purchases.

Other sources of revenue to the General Funds in the first quarter increased \$190 million or 27.3%. Much of this growth was due to fee increases and other legislated changes. Cigarette taxes were up due to the one-time reallocation of \$50 million to the General Revenue Fund. Commercial distribution fee receipts were up \$44 million as the new fee did not generate receipts until later in fiscal year 2004. Riverboat gambling receipts offset the decline in gaming transfers leaving overall revenues flat. Inheritance taxes increased due primarily to the settlement of some estates and decoupling from the federal tax last year.

Base Expenditures Down 7.0%

Through September, General Funds spending totaled \$6.448 billion, \$489 million or 7.0% below the previous year. General Funds appropriations are up \$209 million or 0.9% over last year. Through the first quarter of fiscal year 2005, 20.8% of General Funds appro-

priations have been expended compared to 24.6% last year.

The decline in both the amount and pace of spending is directly attributable to the decrease in Medicaid grant spending by the Department of Public Aid. Medicaid grant spending of \$1.282 billion is down \$835 million or 39.4% from last year. The decline in Medicaid is due to the aggressive cash management strategy employed by the Comptroller's Office and the Department of Public Aid to maximize matching federal dollars. The decline can also be partially attributed to a \$505 million decrease in Department of Public Aid's Medicaid appropriations.

Other areas of spending which decreased from last year include higher education operations (down \$64 million or 15.0%), teachers retirement grants (down \$48 million or 19.0%), higher education grants (down \$11 million or 7.2%), and all other grants (down \$14 million or 4.4%).

Areas of spending which increased include Human Services grants (up \$81 million or 11.2%), state operations expenditures other than higher education (up \$62 million or 5.2%), and State Board of Education grants (up \$41 million or 3.8%).

Transfers out of \$1.416 billion in the first quarter are \$947 million or 201.9% higher than last year. Debt service transfers, utilized to pay both bond and short-term borrowing, were up \$768 million and legislation required a transfer to the State Pensions Fund of \$80 million.

What Lies Ahead

The Comptroller's Office has been monitoring the performance of economy-driven revenue sources to estimate the impact of any developments on the state's fiscal health. Most economic forecasters expect fiscal year 2005 to be a year of moderate economic growth, and the Comptroller's Office's estimates of income and sales tax collections are consistent with that projection. Global Insight, a respected economic consulting firm utilized by various governmental entities including the Comptroller's Office, projects national personal income will increase 5.3% and retail sales will increase 4.7%. Using such national data in context with factors unique to Illinois, it is possible to assert that the performance of

income and sales tax collections in the first quarter have thus far met or exceeded the expectations of this office. However, it is too soon to tell if these gains will be sustained throughout the year. Even with good to excellent performance, overall revenues will not overcome the loss from one-time revenues received last year.

There is room for cautious optimism on the job market front - Illinois' two employment surveys indicate that the economy has started to generate new jobs. Through the first two months of fiscal year 2005 employment as measured by the survey of employers was 0.2% greater than its prior year level. This is the first time this survey showed year-over-year employment growth since March 2001. Employment as measured by the household survey was 1.4% higher than its prior year level.

However, economic uncertainties remain. The continuation of sharply higher energy prices which could put pressure on business costs and consumer budgets might put a damper on economic growth. Energy analysts see the combination of increased demand for oil, world production that is very close to capacity, and low fuel inventories as making it likely that relatively high fuel prices will continue for the foreseeable future. Any negative economic shock could dramatically impact revenue growth.

GRF cash flow problems will continue into the next quarter. Second quarter revenues are expected to be lower when compared to last year since that was when the state received revenues from the tax amnesty program, the second federal grant payment, and continued transfers from the Pension Contribution Fund. Transfers out will increase as the balance of the short-term borrowing payment is due in October. Financial difficulties will in all likelihood remain for the duration of the fiscal year. It is possible that the fiscal year may in fact end with a slight deterioration in the state's fiscal position.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2003	2004		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 437	\$ 297	\$ (140)	\$ 317	\$ 182	\$ (135)	(42.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 608	\$ 645	\$ 37	\$ 1,600	\$ 1,675	\$ 75	4.7 %
Corporate	100	165	65	134	209	75	56.0
Total, Income Taxes	708	810	102	1,734	1,884	150	8.7
Sales Taxes	528	572	44	1,577	1,673	96	6.1
Other Sources:							
Public Utility Taxes	79	107	28	229	250	21	9.2
Cigarette Taxes	33	61	28	100	141	41	41.0
Inheritance Tax (gross)	12	18	6	42	69	27	64.3
Liquor Gallonage Taxes	10	12	2	32	38	6	18.8
Insurance Tax and Fees	59	74	15	74	94	20	27.0
Corporation Franchise Tax and Fees	15	16	1	36	42	6	16.7
Investment Income	4	2	(2)	20	8	(12)	(60.0)
Cook County IGT	23	23	0	77	77	0	0.0
Riverboat Gambling Taxes	14	19	5	31	42	11	35.5
Other	18	30	12	55	125	70	127.3
Total, Other Sources	267	362	95	696	886	190	27.3
Total, Cash Receipts	\$ 1,503	\$ 1,744	\$ 241	\$ 4,007	\$ 4,443	\$ 436	10.9 %
Transfers In:							
Lottery Fund	\$ 38	\$ 49	\$ 11	\$ 108	\$ 143	\$ 35	32.4 %
State Gaming Fund	60	60	0	165	153	(12)	(7.3)
Pension Contribution Fund	152	0	(152)	521	0	(521)	(100.0)
Other Funds	(7)	86	93	259	699	440	169.9
Total, Transfers In	\$ 243	\$ 195	\$ (48)	\$ 1,053	\$ 995	\$ (58)	(5.5) %
Total, State Sources	\$ 1,746	\$ 1,939	\$ 193	\$ 5,060	\$ 5,438	\$ 378	7.5 %
Federal Sources:							
Cash Receipts	\$ 397	\$ 482	\$ 85	\$ 1,641	\$ 1,075	\$ (566)	(34.5) %
Transfers In	0	34	34	12	45	33	275.0
Total, Federal Sources	\$ 397	\$ 516	\$ 119	\$ 1,653	\$ 1,120	\$ (533)	(32.2) %
Total, Base Revenues	\$ 2,143	\$ 2,455	\$ 312	\$ 6,713	\$ 6,558	\$ (155)	(2.3) %
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	0	(226)	(100.0)
Total, Revenues	\$ 2,143	\$ 2,455	\$ 312	\$ 6,939	\$ 6,558	\$ (381)	(5.5) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 610	\$ 622	\$ 12	\$ 1,091	\$ 1,132	\$ 41	3.8 %
Public Aid	493	562	69	2,117	1,282	(835)	(39.4)
Human Services	201	236	35	724	805	81	11.2
Teachers Retirement	82	76	(6)	252	204	(48)	(19.0)
Higher Education	65	64	(1)	153	142	(11)	(7.2)
All Other Grants	124	91	(33)	321	307	(14)	(4.4)
Total, Awards and Grants	1,575	1,651	76	4,658	3,872	(786)	(16.9)
Operations:							
Other Agencies	409	412	3	1,203	1,265	62	5.2
Higher Education	180	178	(2)	428	364	(64)	(15.0)
Total, Operations	589	590	1	1,631	1,629	(2)	(0.1)
Regular Transfers Out	97	397	300	469	1,416	947	201.9
All Other (Includes Prior Year Adjustments)	0	32	32	11	47	36	327.3
Vouchers Payable Adjustment	0	(210)	(210)	168	(516)	(684)	N/A
Total, Base Expenditures	\$ 2,261	\$ 2,460	\$ 199	\$ 6,937	\$ 6,448	\$ (489)	(7.0) %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,261	2,460	199	6,937	6,448	(489)	(7.0)
AVAILABLE CASH BALANCE, ENDING	\$ 319	\$ 292	\$ (27)	\$ 319	\$ 292	\$ (27)	(8.5) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2003	2004		FY 2004	FY 2005	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 24	\$ 3	\$ (21)	\$ 1	\$ 24	\$ 23	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 564	\$ 598	\$ 34	\$ 1,484	\$ 1,553	\$ 69	4.6 %
Corporate	92	153	61	124	194	70	56.5
Total, Income Taxes	656	751	95	1,608	1,747	139	8.6
Sales Taxes	396	429	33	1,185	1,257	72	6.1
Other Sources:							
Public Utility Taxes	71	96	25	206	223	17	8.3
Cigarette Taxes	22	40	18	65	90	25	38.5
Inheritance Tax (gross)	12	18	6	42	69	27	64.3
Liquor Gallonage Taxes	10	12	2	32	38	6	18.8
Insurance Tax and Fees	59	74	15	74	94	20	27.0
Corporation Franchise Tax and Fees	15	16	1	36	42	6	16.7
Investment Income	4	2	(2)	20	8	(12)	(60.0)
Cook County IGT	23	23	0	77	77	0	0.0
Other	18	30	12	53	123	70	132.1
Total, Other Sources	234	311	77	605	764	159	26.3
Total, Cash Receipts	\$ 1,286	\$ 1,491	\$ 205	\$ 3,398	\$ 3,768	\$ 370	10.9 %
Transfers In:							
Regular Transfers In	\$ (6)	\$ 86	\$ 92	\$ 259	\$ 700	\$ 441	170.3 %
Pension Contribution Fund	152	0	(152)	521	0	(521)	(100.0)
Total, Transfers In	\$ 146	\$ 86	\$ (60)	\$ 780	\$ 700	\$ (80)	(10.3) %
Total, State Sources	\$ 1,432	\$ 1,577	\$ 145	\$ 4,178	\$ 4,468	\$ 290	6.9 %
Federal Sources:							
Cash Receipts	\$ 397	\$ 482	\$ 85	\$ 1,641	\$ 1,075	\$ (566)	(34.5) %
Transfers In	0	34	34	12	45	33	275.0
Total, Federal Sources	\$ 397	\$ 516	\$ 119	\$ 1,653	\$ 1,120	\$ (533)	(32.2) %
Total, Base Revenues	\$ 1,829	\$ 2,093	\$ 264	\$ 5,831	\$ 5,588	\$ (243)	(4.2) %
Short-Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	226	0	(226)	(100.0)
Total, Revenues	\$ 1,829	\$ 2,093	\$ 264	\$ 6,057	\$ 5,588	\$ (469)	(7.7) %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 493	\$ 562	\$ 69	\$ 2,117	\$ 1,282	\$ (835)	(39.4) %
Elementary and Secondary Education	323	317	(6)	488	497	9	1.8
Human Services	201	236	35	724	805	81	11.2
Higher Education	11	64	53	98	142	44	44.9
Children and Family Services	69	62	(7)	160	172	12	7.5
All Other Grants	60	45	(15)	183	158	(25)	(13.7)
Total, Awards and Grants	1,157	1,286	129	3,770	3,056	(714)	(18.9)
Operations:							
Other Agencies	409	412	3	1,203	1,265	62	5.2
Higher Education	180	157	(23)	428	321	(107)	(25.0)
Total, Operations	589	569	(20)	1,631	1,586	(45)	(2.8)
Regular Transfers Out	97	397	300	468	1,416	948	202.6
All Other (Includes Prior Adjustments)	0	32	32	11	48	37	336.4
Vouchers Payable Adjustment	0	(210)	(210)	168	(516)	(684)	N/A
Total, Base Expenditures	\$ 1,843	\$ 2,074	\$ 231	\$ 6,048	\$ 5,590	\$ (458)	(7.6) %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	1,843	2,074	231	6,048	5,590	(458)	(7.6)
AVAILABLE CASH BALANCE, ENDING	\$ 10	\$ 22	\$ 12	\$ 10	\$ 22	\$ 12	120.0 %