

Comptroller's Quarterly

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Slow First Quarter Revenues Exacerbates Cash Flow Problems

Fiscal year 2002 began with a General Funds available cash balance of \$1.126 billion, \$391 million less than the prior year. During the first quarter of the fiscal year, spending demands exceeded revenue and the available cash balance fell to \$386 million at the end of September; \$600 million below last year. Last year, the drop over the first quarter amounted to \$531 million and reflected the transfer of \$260 million to the Fund for Illinois' Future. This year, the cash balance fell \$740 million reflecting the rapid slowing in economic activity.

The dramatic drop in the General Funds cash balance was concentrated in the General Revenue Fund (the state's largest operating fund) where the balance fell from \$683 million at the start of the fiscal year to \$8 million at the end of September. After factoring in payables on hand (which exceeded GRF resources during much of the last half of the quarter), the effective GRF balance was negative \$191 million at the close of the quarter. Spending demands in excess of available cash forced payment delays during the last 27 processing days of the quarter.

Revenues

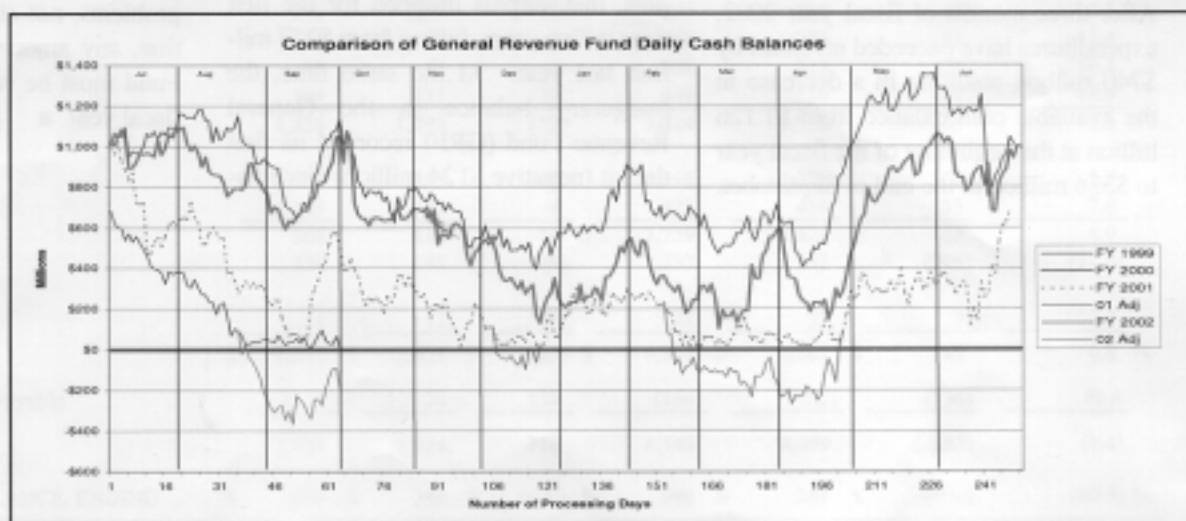
General Funds revenues in the first quarter of FY 2002 were \$5.319 billion, \$296 million lower than the first quarter last year. The weakness in revenues was evident across several receipt sources, especially those tied most directly to the economy, namely income and sales taxes. Both individual and corporate income taxes dropped, falling by 3.3% and 26.7%, respectively. Although sales taxes were up 1.1%, this growth does not reflect the suspension of the sales tax on motor fuel last year. After receipts are adjusted for this factor, sales taxes actually declined by approximately 2.2%. In comparison, this year's budgeted annual growth in those sources is 1.8% in corporate income taxes, 4.4% in individual

income taxes, and 4.8% in sales taxes (factoring in last year's suspension of the sales tax on motor fuel).

Using the quarterly estimates of the Bureau of the Budget, revenues fell \$416 million or 7.3% short of the first quarter estimate of \$5.735 billion. This trend has been evident throughout the quarter with July receipts \$99 million lower than the prior year, August receipts another \$45 million lower, and September receipts \$152 million below last year.

In order to reach the current annual estimates, revenues would need to grow 6.4% over the last 3 quarters of the fiscal year. Given the recent national tragedy, the deepening economic slowdown and the resulting uncertainty, it is unlikely that the last 3 quarters will achieve the growth needed.

The financial effects of September's tragic events will become more evident in the next quarter, when the taxes from



most of September sales are receipted and if income tax withholdings begin to soften further with the additional layoffs. Estimated personal income tax payments over the next several months may also reflect any capital losses experienced due to the recent decline in equity markets. Estimated corporate taxes may also reflect any reduction in corporate earnings and capital losses.

Expenditures

Through September, General Funds cash spending totaled \$6.059 billion, \$87 million or 1.4% below last year. The \$87 million decrease includes an \$88 million increase in lapse period spending, a \$30 million increase in spending from current year appropriations, and a \$205 million decrease in transfers out. Last year transfers out in the first quarter included a \$260 million transfer from the General Revenue Fund to the Fund for Illinois' Future. Absent that transfer last year, transfers this year would be up \$55 million. The small increase in current year spending is partially due to the lack of available cash to make payments.

Awards and grants spending increased \$164 million or 4.3% while operations increased \$85 million or 4.9%, transfers out declined \$205 million or 27.8% and all other spending increased \$5 million. After three months of fiscal year 2002, expenditures have exceeded revenues by \$740 million resulting in a decrease in the available cash balance from \$1.126 billion at the beginning of the fiscal year to \$386 million at the end of September.

Of the \$164 million increase in grant spending, Public Aid is up \$64 million or 5.3% through September while the Department of Human Services has increased by only \$4 million or 0.5%. Awards and grants spending by the State Board of Education is down \$7 million as a result of the timing of some categorical payments, while higher education and Teachers' Retirement System grants have increased \$21 million each.

Spending for operations totaled \$1.824 billion through September, \$85 million higher than comparable expenditures last year. Higher education operations are up 7.8% or \$33 million, while all other operations increased \$52 million (3.9%).

While the dollar amount of vouchers presented for payment is above last year, actual cash payments are down due to the lack of available cash. The difference between these two measures is vouchers payable.

Cash Balances

With the books now closed on fiscal year 2001, the General Funds recorded a positive budgetary balance (end-of-year cash balance minus lapse period spending) for the fifth consecutive year. While the balance showed a \$300 million surplus, that surplus dropped for the first time in five years, falling from \$777 million last year. At the same time, the budgetary balance in the General Revenue Fund (GRF) recorded its first deficit (negative \$124 million) since fis-

cal year 1996, falling from a surplus of \$278 million last year. That means that \$124 million of fiscal year 2002 GRF resources were needed to pay for liabilities incurred last year.

So far in fiscal year 2002, slowing revenues have contributed to the current negative cash flow situation the State is experiencing. In fact, on 27 days out of a total of 63 (over 40%) in the first quarter, payment demands exceeded resources. During those 27 days, the cash position in the General Revenue Fund reached a low of negative \$364 million and has only been above negative \$100 million on 2 processing days since August 28th.

This is the first time since fiscal year 1995 that cash flow difficulties have surfaced this early in the year.

Absent budget actions to reduce the growth in spending or to increase revenues, it is now likely that payment demands could exceed resources throughout the remainder of the fiscal year. The possibility of a reprieve at the end of June decreases with each day that revenues come in even further below the estimates.

Although there is \$226 million available in the Budget Stabilization Fund, that amount will only lessen the cash flow problems, not eliminate them. In addition, any amount "borrowed" from the Fund must be repaid by the end of the fiscal year. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2000	2001		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 817	\$ 485	\$ (332)	\$ 1,517	\$ 1,126	\$ (391)	(25.8) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 711	\$ 659	\$ (52)	\$ 1,737	\$ 1,679	\$ (58)	(3.3) %
Corporate	184	125	(59)	217	159	(58)	(26.7)
Total, Income Taxes	895	784	(111)	1,954	1,838	(116)	(5.9)
Sales Taxes	499	494	(5)	1,517	1,533	16	1.1
Other Sources:							
Public Utility Taxes	77	68	(9)	266	233	(33)	(12.4)
Cigarette Taxes	33	33	0	100	100	0	0.0
Inheritance Tax (gross)	28	33	5	96	98	2	2.1
Liquor Gallonage Taxes	10	6	(4)	34	25	(9)	(26.5)
Insurance Tax and Fees	44	42	(2)	51	48	(3)	(5.9)
Corporation Franchise Tax and Fees	12	13	1	34	32	(2)	(5.9)
Investment Income	21	12	(9)	73	50	(23)	(31.5)
Cook County IGT	23	23	0	77	77	0	0.0
Other	25	18	(7)	61	57	(4)	(6.6)
Total, Other Sources	273	248	(25)	792	720	(72)	(9.1)
Total, Cash Receipts	\$ 1,667	\$ 1,526	\$ (141)	\$ 4,263	\$ 4,091	\$ (172)	(4.0) %
Transfers In:							
Lottery Fund	\$ 37	\$ 45	\$ 8	\$ 102	\$ 118	\$ 16	15.7 %
State Gaming Fund	43	50	7	136	130	(6)	(4.4)
Protest Fund	0	0	0	2	1	(1)	(50.0)
Other Funds	27	15	(12)	95	55	(40)	(42.1)
Total, Transfers In	\$ 107	\$ 110	\$ 3	\$ 335	\$ 304	\$ (31)	(9.3) %
Total, State Sources	\$ 1,774	\$ 1,636	\$ (138)	\$ 4,598	\$ 4,395	\$ (203)	(4.4) %
Federal Sources:							
Cash Receipts	\$ 324	\$ 331	\$ 7	\$ 985	\$ 902	\$ (83)	(8.4) %
Transfers In	29	8	(21)	32	22	(10)	(31.3)
Total, Federal Sources	\$ 353	\$ 339	\$ (14)	\$ 1,017	\$ 924	\$ (93)	(9.1) %
Total, Revenues	\$ 2,127	\$ 1,975	\$ (152)	\$ 5,615	\$ 5,319	\$ (296)	(5.3) %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 551	\$ 492	\$ (59)	\$ 973	\$ 966	\$ (7)	(0.7) %
Public Aid	409	385	(24)	1,211	1,275	64	5.3
Human Services	210	203	(7)	795	799	4	0.5
Teachers Retirement	61	68	7	184	205	21	11.4
Higher Education	23	18	(5)	202	223	21	10.4
All Other Grants	104	133	29	449	510	61	13.6
Total, Awards and Grants	1,358	1,299	(59)	3,814	3,978	164	4.3
Operations:							
Other Agencies	399	439	40	1,318	1,370	52	3.9
Higher Education	169	173	4	421	454	33	7.8
Total, Operations	568	612	44	1,739	1,824	85	4.9
Transfers Out	150	145	(5)	737	532	(205)	(27.8)
All Other (Includes Prior Adjustments)	1	(2)	(3)	22	27	5	22.7
Total, Expenditures	\$ 2,077	\$ 2,054	\$ (23)	\$ 6,312	\$ 6,361	\$ 49	0.8 %
Adjustment for Vouchers Payable	(119)	20	139	(166)	(302)	(136)	N/A
Total, Cash Expenditures	1,958	2,074	116	6,146	6,059	(87)	(1.4)
AVAILABLE CASH BALANCE, ENDING	\$ 986	\$ 386	\$ (600)	\$ 986	\$ 386	\$ (600)	(60.9) %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2000	2001		FY 2001	FY 2002	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 243	\$ 43	\$ (200)	\$ 997	\$ 683	\$ (314)	(31.5) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 659	\$ 610	\$ (49)	\$ 1,610	\$ 1,557	\$ (53)	(3.3) %
Corporate	170	116	(54)	201	147	(54)	(26.9)
Total, Income Taxes	829	726	(103)	1,811	1,704	(107)	(5.9)
Sales Taxes	375	372	(3)	1,140	1,152	12	1.1
Other Sources:							
Public Utility Taxes	71	60	(11)	235	206	(29)	(12.3)
Cigarette Taxes	22	22	0	65	65	0	0.0
Inheritance Tax (gross)	28	33	5	96	98	2	2.1
Liquor Gallonage Taxes	10	6	(4)	34	25	(9)	(26.5)
Insurance Tax and Fees	44	42	(2)	51	48	(3)	(5.9)
Corporation Franchise Tax and Fees	12	13	1	34	32	(2)	(5.9)
Investment Income	21	12	(9)	73	50	(23)	(31.5)
Cook County IGT	23	23	0	77	77	0	0.0
Other	25	17	(8)	60	55	(5)	(8.3)
Total, Other Sources	256	228	(28)	725	656	(69)	(9.5)
Total, Cash Receipts	\$ 1,460	\$ 1,326	\$ (134)	\$ 3,676	\$ 3,512	\$ (164)	(4.5) %
Transfers In	26	15	(11)	96	56	(40)	(41.7)
Total, State Sources	\$ 1,486	\$ 1,341	\$ (145)	\$ 3,772	\$ 3,568	\$ (204)	(5.4) %
Federal Sources:							
Cash Receipts	\$ 324	\$ 331	\$ 7	\$ 985	\$ 902	\$ (83)	(8.4) %
Transfers In	29	8	(21)	32	22	(10)	(31.3)
Total, Federal Sources	\$ 353	\$ 339	\$ (14)	\$ 1,017	\$ 924	\$ (93)	(9.1) %
Total, Revenues	\$ 1,839	\$ 1,680	\$ (159)	\$ 4,789	\$ 4,492	\$ (297)	(6.2) %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 409	\$ 385	\$ (24)	\$ 1,211	\$ 1,275	\$ 64	5.3 %
Elementary and Secondary Education	252	223	(29)	389	420	31	8.0
Human Services	210	203	(7)	795	799	4	0.5
Higher Education	8	17	9	143	169	26	18.2
Children and Family Services	71	73	2	201	187	(14)	(7.0)
All Other Grants	32	60	28	249	324	75	30.1
Total, Awards and Grants	982	961	(21)	2,988	3,174	186	6.2
Operations:							
Other Agencies	399	439	40	1,318	1,371	53	4.0
Higher Education	130	151	21	324	366	42	13.0
Total, Operations	529	590	61	1,642	1,737	95	5.8
Transfers Out	150	145	(5)	737	531	(206)	(28.0)
All Other (Includes Prior Adjustments)	2	(1)	(3)	21	27	6	28.6
Total, Expenditures	\$ 1,663	\$ 1,695	\$ 32	\$ 5,388	\$ 5,469	\$ 81	1.5 %
Adjustment for Vouchers Payable	(79)	20	99	(100)	(302)	(202)	N/A
Total, Cash Expenditures	1,584	1,715	131	5,288	5,167	(121)	(2.3)
AVAILABLE CASH BALANCE, ENDING	\$ 498	\$ 8	\$ (490)	\$ 498	\$ 8	\$ (490)	(98.4) %