

Comptroller's Quarterly

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FISCAL YEAR 2017 ENDS WITH FULL STATE BUDGET IN SIGHT, BUT BILL BACKLOG KEPT GROWING

The state ended the 2017 fiscal year on the verge of beginning a third consecutive fiscal year without a comprehensive budget in place. Though the Legislature ended its regular session on May 31 with no budget, as of the end of the fiscal year 2017 fourth quarter, legislators continued working toward the goal of sending a fiscal year spending and revenue plan to the governor for approval in the early days of the new fiscal year. A fiscal year 2018 budget – the first in two years – was finally approved six days into the new fiscal year.

The fiscal year 2018 budget includes a spending plan that calls for almost \$3 billion in spending cuts from estimated fiscal year 2017 levels, as well as an increase in the individual income tax from 3.75 percent to 4.95 percent and a corporate income tax increase from 5.25 percent to 7.00 percent, and the authorization to borrow additional funds to address the state's unpaid bill backlog.

A budget provides stability that has been lacking the past two

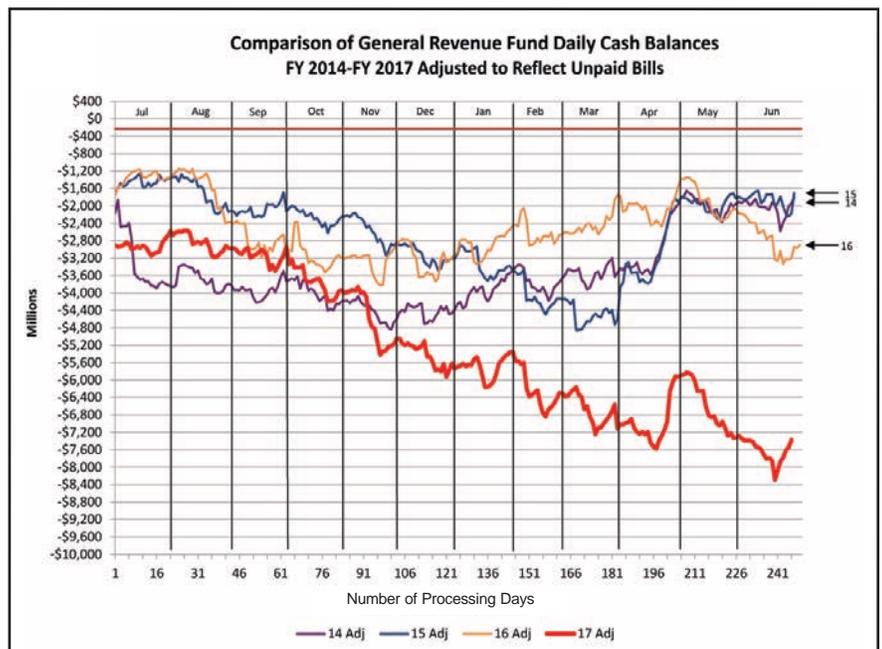
years. However, even with a budget in place, the state and those dependent on state programs and services will continue to face challenges. The fourth quarter witnessed another record mark in the amount of unpaid state bills. On June 14, the estimated bill backlog rose to \$15 billion for the first time in the state's history. Despite the fiscal challenges the state has faced without a budget the past two years, in June a federal court ruled Illinois must speed up its payment of Medicaid bills, ordering the state to pay at least \$586 million a month in Medicaid vouchers and \$2 billion in old Medicaid vouchers over the course of the 2018 fiscal year.

On June 30, 2015, the day before the two-year budget impasse began, the estimated backlog of unpaid bills was \$5.030 billion, which included an estimated \$2.2 billion held at state agencies. On June 30, 2017, the backlog had nearly tripled to about \$14.711 billion, with the bills estimated to be held at state agencies accounting for almost half that amount.

Quarterly Highlights

On June 1, the day after the Legislature's normally scheduled adjournment, S&P Global Ratings and Moody's Investors Service issued downgrades to the state's General Obligation bond rating to just one notch above speculative, or "junk," grade. Both agencies warned that entering a third fiscal year without a budget would lead to further downgrades and would make Illinois the first state to ever receive "junk" bond status. Just one week later, Moody's downgraded the bond ratings of seven Illinois universities, leaving only two of the state's nine public universities with investment-grade bond ratings. Moody's noted the downgrades were in some instances the result of liquidity concerns, but overall because the universities rely on the (at the time) budget-less state for funding assistance.

The lack of a state budget for two years with 90 percent of state spending set at fiscal year 2015 levels continued to put a strain on state finances. On June 30, the Office of the Comptroller had about \$8.191 billion in outstanding General Funds payables at the end of first quarter. Compared to the same time last year, that is an increase



of almost \$4.75 billion – almost 140 percent.

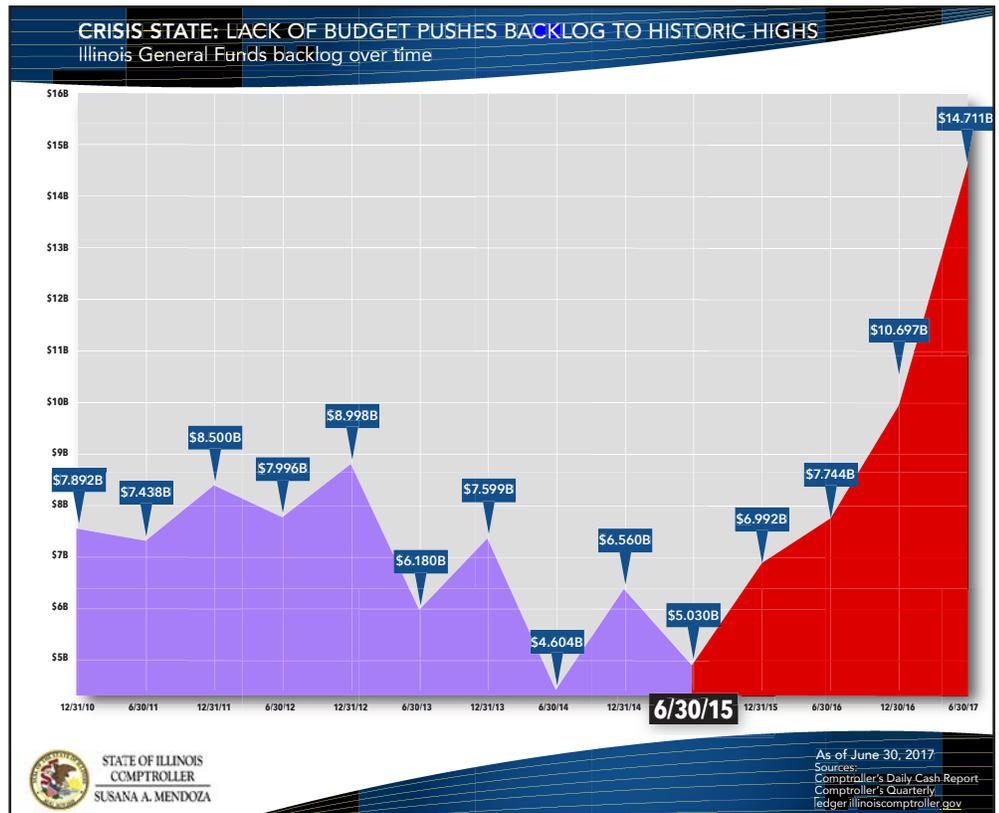
The Office of the Comptroller office estimates another \$6.52 billion in General Funds payables, including invoices on hand with the Department of Central Management Services for state employee group health insurance, is being held by state agencies and not reported to the Office of the Comptroller. Together, General Funds payables with the Office of the Comptroller and those estimated being held by agencies resulted in a total backlog of \$14.711 billion at the end of the fiscal year's fourth quarter – a nearly 90 percent increase in just the 12 months since the end of fiscal year 2016.

When outstanding vouchers are considered, the General Revenue Fund – Illinois' main operating account – closed the quarter with a cash balance of negative \$7.385 billion.

Base Revenues

Fiscal year 2017 ended with weakness in virtually all categories of receipts, resulting in a decline in total General Funds revenues. Total base revenues for the year were \$29.405 billion, a decrease of \$968 million (3.2 percent). Factors impacting the state's base revenues for the year include:

- **INCOME TAX:** Individual income tax receipts were \$12.737 billion, a decline of \$153 million (1.2 percent) compared to fiscal year 2016, while corporate income tax revenues dropped by \$644 million (32.7 percent) to \$1.328 billion. Part of the decline in corporate income tax is due to the reclassification of pass-through withholding as personal income tax.
- **SALES TAX:** Through the end of the fiscal year, sales tax revenues brought in \$8.043 billion, a decrease of \$20 million (0.2 percent).
- **TRANSFERS:** Lottery transfers increased by \$43 million for the fiscal year, due in part to the final transfer from the prior fiscal year being processed in July 2017, the first month of the 2017 fiscal year. Declines in riverboat gambling transfers continued, decreasing by \$7 million. Other funds transfers decreased by \$75 million. It is important to note that while transfers from the Budget Stabilization Fund are excluded from base revenue analysis for fiscal year 2016, this will not be the case in fiscal year 2017, since the Budget Stabilization Fund was appropriated for expenditure and therefore cannot be used for transfers.
- **FEDERAL REVENUE:** Federal dollars represented \$2.483 billion in General Funds revenues for fiscal year 2017, a decline of \$182 million (6.8 percent). The decrease is due to a



reduction in payments from the General Funds for Medicaid bills eligible for reimbursement.

- **OTHER RECEIPTS:** All other state receipts increased by \$70 million (2.2 percent) from the previous fiscal year.

Base Expenditures

General Funds base spending (payments released by the Office of the Comptroller) totaled \$28.559 billion through the end of fiscal year 2017, which represented a decrease of \$2.189 billion (7.1 percent). Warrants issued, including prior year adjustments, decreased by \$1.396 billion, while transfers out decreased by \$793 million. Although vouchers presented by state agencies increased by \$1.764 billion, or 6.6 percent, for the year, the lack of cash to pay vouchers received resulted in the overall decline in spending for the fiscal year.

- **SOCIAL SERVICES:** Vouchers presented by the Department of Healthcare and Family Services (primarily for Medicaid spending) increased by \$667 million, or 11.1 percent, for fiscal year 2017. Department of Children and Family Services expenditures increased by \$53 million (8.6 percent). Vouchers presented by the Department of Human Services declined by \$113 million, or 3.5 percent, and Department on Aging vouchers were down \$88 million (13.8 percent).
- **EDUCATION:** Vouchers presented by the

State Board of Education were up \$660 million, or 10.1 percent, through the fourth quarter. General Funds appropriations for General State Aid for schools increased by \$639 million this fiscal year when compared to fiscal year 2016. In addition, \$253 million was appropriated from the Fund for the Advancement of Education, which receives a portion of state income tax. This represents a reduction of \$193 million when compared to fiscal year 2016. Vouchers presented by higher education agencies, excluding the State Universities Retirement System (SURS), increased by \$99 million, or 15.9 percent.

- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers increased by \$238 million, and SURS expenditures increased by \$90 million. Vouchers from the State Employees Retirement System (SERS) were down \$58 million.
- **ALL OTHER:** Central Management Services had the largest increase among the other major agencies at \$144 million, which was used to pay billings other than state employee health insurance. At the end of the fiscal year, there remained no appropriation in place for this purpose. Department of Corrections spending was up \$95 million, or 10.0 percent.

- **TRANSFERS OUT:** Transfers out decreased by \$793 million (16.8 percent) when compared to the prior fiscal year. As of the end of fiscal year 2017, the backlog still includes transfers from fiscal year 2016. ■

GENERAL FUNDS TRANSACTIONS

(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2016	2017		FY 2016	FY 2017	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 283	\$ 687	\$ 404	\$ 621	\$ 246	\$ (375)	(60.4) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,310	\$ 1,106	\$ (204)	\$ 12,890	\$ 12,737	\$ (153)	(1.2) %
Corporate	105	264	159	1,972	1,328	(644)	(32.7)
Total, Income Taxes	1,415	1,370	(45)	14,862	14,065	(797)	(5.4)
Sales Taxes	733	712	(21)	8,063	8,043	(20)	(0.2)
Other Sources:							
Public Utility Taxes	68	81	13	926	884	(42)	(4.5)
Cigarette Taxes	29	40	11	353	353	0	0.0
Inheritance Tax (gross)	9	22	13	306	261	(45)	(14.7)
Liquor Gallonage Taxes	15	15	0	170	171	1	0.6
Insurance Tax and Fees	78	70	(8)	398	391	(7)	(1.8)
Corporation Franchise Tax and Fees	20	17	(3)	207	207	0	0.0
Investment Income	4	5	1	24	36	12	50.0
Cook County IGT	0	0	0	244	244	0	0.0
Other	160	180	20	574	725	151	26.3
Total, Other Sources	383	430	47	3,202	3,272	70	2.2
Total, Cash Receipts	\$ 2,531	\$ 2,512	\$ (19)	\$ 26,127	\$ 25,380	\$ (747)	(2.9) %
Transfers In:							
Lottery Fund	\$ 59	\$ 88	\$ 29	\$ 677	\$ 720	\$ 43	6.4 %
State Gaming Fund	17	18	1	277	270	(7)	(2.5)
Other Funds	58	49	(9)	627	552	(75)	(12.0)
Total, Transfers In	\$ 134	\$ 155	\$ 21	\$ 1,581	\$ 1,542	\$ (39)	(2.5) %
Total, State Sources	\$ 2,665	\$ 2,667	\$ 2	\$ 27,708	\$ 26,922	\$ (786)	(2.8) %
Federal Sources	\$ 212	\$ 196	\$ (16)	\$ 2,665	\$ 2,483	\$ (182)	(6.8) %
Total, Base Revenues	\$ 2,877	\$ 2,863	\$ (14)	\$ 30,373	\$ 29,405	\$ (968)	(3.2) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Interfund Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	125	0	(125)	(100.0)
Total, Revenues	\$ 2,877	\$ 2,863	\$ (14)	\$ 30,498	\$ 29,405	\$ (1,093)	(3.6) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 1,243	\$ 768	\$ (475)	\$ 6,020	\$ 6,687	\$ 667	11.1 %
State Board of Education	676	681	5	6,515	7,175	660	10.1
Human Services	219	219	0	3,257	3,144	(113)	(3.5)
Teachers Retirement	324	333	9	3,869	4,107	238	6.2
University Retirement System	178	40	(138)	1,416	1,506	90	6.4
All Other Higher Education	18	2	(16)	622	721	99	15.9
Corrections	74	89	15	948	1,043	95	10.0
State Employees Retirement System	111	109	(2)	1,367	1,309	(58)	(4.2)
Central Management Services	6	0	(6)	31	175	144	464.5
Children and Family Services	27	35	8	616	669	53	8.6
Aging	58	49	(9)	638	550	(88)	(13.8)
State Police	24	23	(1)	235	219	(16)	(6.8)
All Other	116	105	(11)	1,390	1,383	(7)	(0.5)
Total	\$ 3,074	\$ 2,453	\$ (621)	\$ 26,924	\$ 28,688	\$ 1,764	6.6 %
Regular Transfers Out	714	438	(276)	4,724	3,931	(793)	(16.8)
Prior Year Adjustments	1	(1)	(2)	(12)	(3)	9	(75.0)
Vouchers Payable Adjustment	(1,000)	(417)	583	(888)	(4,057)	(3,169)	N/A
Total, Base Expenditures	\$ 2,789	\$ 2,473	\$ (316)	\$ 30,748	\$ 28,559	\$ (2,189)	(7.1) %
Transfers to Repay Budget Stabilization	125	0	(125)	125	0	(125)	(100.0)
Transfers to Repay Interfund Borrowing	0	0	0	0	15	15	0.0
Total, Expenditures	2,914	2,473	(441)	30,873	28,574	(2,299)	(7.4)
AVAILABLE CASH BALANCE, ENDING	\$ 246	\$ 1,077	\$ 831	\$ 246	\$ 1,077	\$ 831	337.8 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2016	2017		FY 2016	FY 2017	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 93	\$ 65	\$ (28)	\$ 490	\$ 64	\$ (426)	(86.9) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,210	\$ 1,020	\$ (190)	\$ 11,883	\$ 11,740	\$ (143)	(1.2) %
Corporate	98	245	147	1,829	1,230	(599)	(32.8)
Total, Income Taxes	1,308	1,265	(43)	13,712	12,970	(742)	(5.4)
Sales Taxes	551	535	(16)	6,057	6,042	(15)	(0.2)
Other Sources:							
Public Utility Taxes	61	74	13	845	815	(30)	(3.6)
Cigarette Taxes	21	32	11	254	279	25	9.8
Inheritance Tax (gross)	9	22	13	306	261	(45)	(14.7)
Liquor Gallonage Taxes	15	15	0	169	171	2	1.2
Insurance Tax and Fees	78	70	(8)	398	391	(7)	(1.8)
Corporation Franchise Tax and Fees	20	17	(3)	207	207	0	0.0
Investment Income	4	5	1	24	35	11	45.8
Cook County IGT	0	0	0	244	244	0	0.0
Other	159	180	21	568	722	154	27.1
Total, Other Sources	367	415	48	3,015	3,125	110	3.6
Total, Cash Receipts	\$ 2,226	\$ 2,215	\$ (11)	\$ 22,784	\$ 22,137	\$ (647)	(2.8) %
Transfers In	58	50	(8)	625	550	(75)	(12.0)
Total, State Sources	\$ 2,284	\$ 2,265	\$ (19)	\$ 23,409	\$ 22,687	\$ (722)	(3.1) %
Federal Sources	\$ 212	\$ 196	\$ (16)	\$ 2,665	\$ 2,483	\$ (182)	(6.8) %
Total, Base Revenues	\$ 2,496	\$ 2,461	\$ (35)	\$ 26,074	\$ 25,170	\$ (904)	(3.5) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Interfund Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	125	0	(125)	(100.0)
Total, Revenues	\$ 2,496	\$ 2,461	\$ (35)	\$ 26,199	\$ 25,170	\$ (1,029)	(3.9) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 1,243	\$ 768	(475)	\$ 6,020	\$ 6,687	\$ 667	11.1
State Board of Education	461	533	72	2,503	3,564	1,061	42.4
Human Services	219	219	0	3,257	3,144	(113)	(3.5)
University Retirement System	178	40	(138)	1,416	1,506	90	6.4
All Other Higher Education	0	0	0	12	27	15	125.0
Corrections	74	89	15	948	1,043	95	10.0
State Employees Retirement System	111	109	(2)	1,367	1,309	(58)	(4.2)
Central Management Services	6	0	(6)	31	175	144	464.5
Children and Family Services	27	35	8	616	669	53	8.6
Aging	58	49	(9)	638	550	(88)	(13.8)
State Police	24	23	(1)	235	219	(16)	(6.8)
All Other	128	106	(22)	1,408	1,503	95	6.7
Total	\$ 2,529	\$ 1,971	\$ (558)	\$ 18,451	\$ 20,396	\$ 1,945	10.5 %
Regular Transfers Out	981	660	(321)	9,103	8,550	(553)	(6.1)
Prior Year Adjustments	(1)	(2)	(1)	(12)	(3)	9	(75.0)
Vouchers Payable Adjustment	(1,109)	(417)	692	(1,042)	(4,038)	(2,996)	N/A
Total, Base Expenditures	\$ 2,400	\$ 2,212	\$ (188)	\$ 26,500	\$ 24,905	\$ (1,595)	(6.0) %
Transfers to Repay Budget Stabilization	125	0	(125)	125	0	(125)	(100.0)
Transfers to Repay Interfund Borrowing	0	0	0	0	15	15	0.0
Total, Expenditures	2,525	2,212	(313)	26,625	24,920	(1,705)	(6.4)
AVAILABLE CASH BALANCE, ENDING	\$ 64	\$ 314	\$ 250	\$ 64	\$ 314	\$ 250	390.6 %