

Comptroller's Quarterly

SUSANA A. MENDOZA, COMPTROLLER

Fiscal Year 2018 • Quarter 1 • October 2017

STATE GETS FULL BUDGET AFTER TWO-YEAR IMPASSE, FIRST QUARTER ENDS WITH STATE PLANS TO PAY \$6 BILLION TOWARD BILL BACKLOG

A two-year long budget stalemate ended July 6, 2017, when the General Assembly overrode the Governor's vetoes of budget bills for the 2018 fiscal year. The implementation of the budget marked the first month the state had a comprehensive budget since June 2015.

While the Comptroller's Office continues to manage the bill backlog and prioritize payments to state programs and providers of state services, the backlog has continued to rise due to two years without a full state budget, which resulted in spending that did not match revenues, larger payments to the state's pension systems, and growth in payments owed for employee health care.

However, the fiscal 2018 budget contained financial tools to

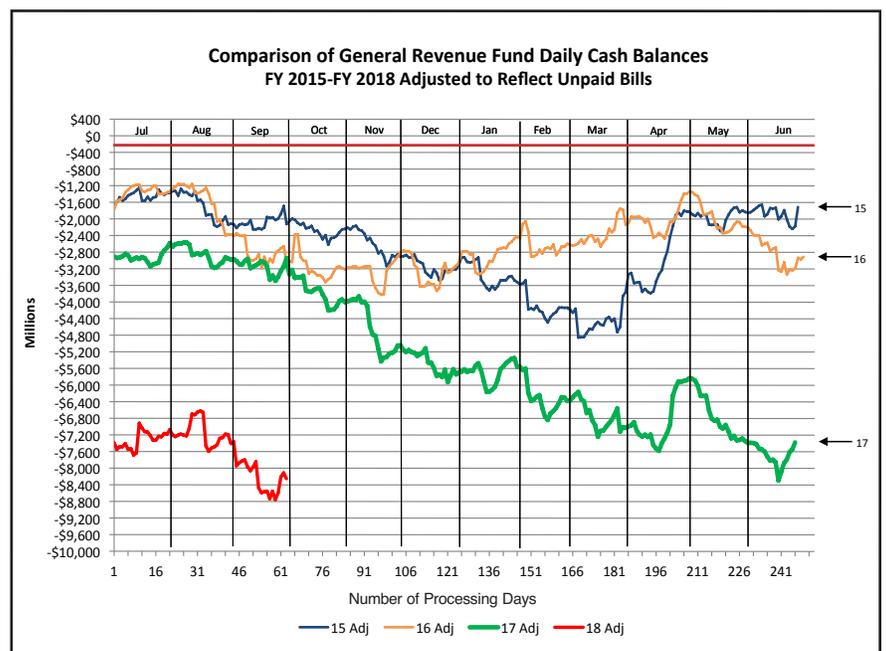
help address the backlog of unpaid bills that nearly tripled between June 2015 and July 2017. These tools include interfund borrowing and the authority to issue up to \$6 billion in General Obligation bonds to pay off bills incurred prior to July 1, 2017. For months, the Comptroller has advocated for the passage of a borrowing plan to help pay down the growing backlog of old bills, and in September the Governor finally announced plans to move forward on this authorization.

Additionally, the implementation of a full budget for the first time in two years and the agreement on a new formula for calculating payments to elementary schools and high schools ended two sectors of political gridlock. Bond ratings agencies noted the budget stalemate played a role in the state's June credit-rating downgrade.

Quarterly Highlights

As part of the fiscal year 2018 budget implementation bill, three existing funds were added to the General Funds: the Commitment to Human Services Fund, the Fund for the Advancement of Education, and the Budget Stabilization Fund. The General Funds are now comprised of those three funds and the four funds that, prior to the implementation of Public Act 100-0023, made up the General Funds (General Revenue, General Revenue – Common School Special Account, Common School, and Education Assistance).

With the addition of these three funds, the outstanding amount of General Funds payables in the Office of the Comptroller at the close of September 30, 2017, was \$9.058 billion, which represents a 216 percent increase when compared to the first quarter of fiscal year 2017, and is \$56 million more than would have been reported under the previous composition of the General Funds. The Office of the Comptroller estimated another \$6.16



billion in General Funds payables held at state agencies and not reported to the Comptroller (compared to an estimated \$4.40 billion one year ago). Combined, the two amounts resulted in a total estimated bill backlog of \$15.218 billion at the close of the first quarter of fiscal year 2018, an increase of 177 percent compared to the close of the first quarter of fiscal year 2017.

When outstanding vouchers are considered, the General Revenue Fund – Illinois' main operating account – closed the quarter with a cash balance of negative \$8.264 billion.

Note: Public Act 100-0023 (15 ILCS 20/50-40) defines the General Funds as the General Revenue Fund, the Common School Fund, the General Revenue – Common School Special Account Fund, the Education Assistance Fund, the Fund for the Advancement of Education, the Commitment to Human Services Fund, and the Budget Stabilization Fund. Prior to July 6, 2017, the General Funds were comprised of only the General Revenue Fund, the Common School Fund, the General Revenue – Common School Special Account Fund, and the Education Assistance Fund.

Base Revenues

Through September of fiscal year 2018, a combination of the increase in income tax rates, increased federal sources and transfers-in resulted in a General Funds total base revenue increase of \$1.354 billion, or 19.5 percent. This total included \$222 million in the three newly designated General Funds: \$111 million in the Commitment to Human Services Fund, \$111 million in the Fund for the Advancement of Education, and less than \$26,000 in the Budget Stabilization Fund. Not accounting for those three funds, General Funds revenues increased by \$1.132 billion, or 16.3 percent compared to the first quarter of the 2017 fiscal year.

Factors impacting the state's base revenues this year include:

- **INCOME TAX:** Individual income tax receipts grew by \$724 million, or 27.0 percent, compared to the first three months of the 2017 fiscal year (\$111 million of this amount was deposited into the Commitment to Human Services Fund and \$111 million was deposited into the Fund for the Advancement of Education; when these two

funds are not factored, for a more level comparison to the last fiscal year, the individual income tax receipts grew by \$502 million, or 18.7 percent). Corporate income tax revenues increased by \$128 million, or 44.4 percent (a minimal amount – less than \$250,000 in total – was deposited into the Commitment to Human Services Fund and the Fund for the Advancement of Education). The growth in revenues is associated with the increases in the individual and corporate income tax rates from 3.75 percent to 4.95 percent and from 5.25 percent to 7 percent, respectively.

- **SALES TAX:** Sales tax revenues for the first quarter decreased by \$22 million, or 1.0 percent, compared to the first quarter of fiscal year 2017. This decrease is attributed to the change in how the state shares sales tax receipts with the Downstate Public Transportation Fund.

- **TRANSFERS:** Transfers-in increased by \$62 million in the first three months of fiscal year 2018 compared to the first three months of fiscal year 2017. Lottery Fund transfers were down \$12 million, due to the timing of the final transfer from fiscal year 2016 that didn't occur until July of fiscal year 2017. Riverboat gambling transfers increased by \$1 million.

- **FEDERAL REVENUE:** Federal revenues increased by \$455 million, or 62.8 percent, compared to the previous fiscal year. The growth is due to an increase in payments from the General Funds for Medicaid bills eligible for reimbursement.

- **OTHER RECEIPTS:** Public utility taxes increased by \$6 million and insurance taxes and fees increased by \$5 million. Total "all other state sources" revenues are up \$7 million, or 1.0 percent, from the first three months of the previous fiscal year.

Base Expenditures

The largest factor impacting General Funds spending for fiscal year 2018 was the implementation of a full budget and additional spending authority for fiscal year 2017 that occurred during the lapse period. As a result, through September 2017, General Funds base spending (payments released by the Office of the Comptroller) increased by \$2.354 billion, or 34.3 percent, when compared to the same period of fiscal year 2017 (\$313 million came from the Commitment to Human Services Fund and \$6 million came from the Budget

Stabilization Fund; therefore, when not factoring in these funds, General Funds base spending increased by \$2.035 billion, or 29.6 percent, over the same period in fiscal year 2017). Warrants issued, including prior year adjustments, increased by \$2.2 billion, while transfers-out increased by \$154 million.

- **SOCIAL SERVICES:** Department of Healthcare and Family Services expenditures increased by \$639 million, or 111.1 percent. Vouchers presented by the Department on Aging increased by \$319 million, or 203.2 percent. Department of Human Services expenditures increased by \$44 million, or 4.9 percent. Vouchers presented by the Department of Children and Family Services increased by \$13 million, or 7.7 percent, for the first quarter.

- **EDUCATION:** State Board of Education expenditures decreased by \$77 million, or 5.1 percent, when compared to the same period of fiscal year 2017. This reduction is a result of the timing of enacting the new school funding formula, the Evidence Based Funding formula (Public Act 100-0465, effective 8/31/2017). This new formula replaces the prior General State Aid funding, rolls in part of funding known as Mandated Categoricals, and (for fiscal year 2018 only) includes funding for the Chicago Teachers' Pension and Retirement System. Vouchers presented by higher education agencies, excluding the retirement system, increased by \$970 million (161.9 percent) due to the implementation of a full fiscal year 2018 budget and additional spending authority for fiscal year 2017 that occurred during lapse period.

- **RETIREMENT SYSTEMS:** Teachers' Retirement System vouchers increased by \$145 million, State Employees Retirement System vouchers increased by \$51 million, and State Universities Retirement System expenditures increased by \$46 million.

- **ALL OTHER:** Vouchers from all other agencies increased by \$466 million. Central Management Services had the largest increase among the other major agencies at \$429 million, which included funding for state employee health insurance.

- **TRANSFERS OUT:** Transfers-out for the first quarter of fiscal year 2018 increased by \$154 million, or 16.6 percent, due to the increase in the backlog of transfers on June 30 to be paid during lapse period this fiscal year as compared to the prior fiscal year. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2016	2017		FY 2017	FY 2018	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 201	\$ 1,042	\$ 841	\$ 246	\$ 1,368	\$ 1,122	456.1 %
*Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,054	\$ 1,371	\$ 317	\$ 2,684	\$ 3,408	\$ 724	27.0 %
Corporate	252	334	82	288	416	128	44.4
Total, Income Taxes	1,306	1,705	399	2,972	3,824	852	28.7
Sales Taxes	694	678	(16)	2,102	2,080	(22)	(1.0)
Other Sources:							
Public Utility Taxes	67	67	0	208	214	6	2.9
Cigarette Taxes	30	29	(1)	88	88	0	0.0
Inheritance Tax (gross)	39	35	(4)	79	74	(5)	(6.3)
Liquor Gallonage Taxes	14	16	2	44	46	2	4.5
Insurance Tax and Fees	77	71	(6)	108	113	5	4.6
Corporation Franchise Tax and Fees	32	24	(8)	57	52	(5)	(8.8)
Investment Income	3	3	0	7	11	4	57.1
Cook County IGT	0	0	0	0	0	0	0.0
Other	35	32	(3)	114	114	0	0.0
Total, Other Sources	297	277	(20)	705	712	7	1.0
Total, Cash Receipts	\$ 2,297	\$ 2,660	\$ 363	\$ 5,779	\$ 6,616	\$ 837	14.5 %
Transfers In:							
Lottery Fund	\$ 67	\$ 68	\$ 1	\$ 165	\$ 153	\$ (12)	(7.3) %
State Gaming Fund	24	24	0	77	78	1	1.3
Other Funds	41	37	(4)	182	255	73	40.1
Total, Transfers In	\$ 132	\$ 129	\$ (3)	\$ 424	\$ 486	\$ 62	14.6 %
Total, State Sources	\$ 2,429	\$ 2,789	\$ 360	\$ 6,203	\$ 7,102	\$ 899	14.5 %
Federal Sources	\$ 241	\$ 186	\$ (55)	\$ 724	\$ 1,179	\$ 455	62.8 %
Total, Base Revenues	\$ 2,670	\$ 2,975	\$ 305	\$ 6,927	\$ 8,281	\$ 1,354	19.5 %
Short Term Borrowing	0	0	0	0	0	0	0.0
Interfund Borrowing	0	0	0	0	150	150	0.0
Total, Revenues	\$ 2,670	\$ 2,975	\$ 305	\$ 6,927	\$ 8,431	\$ 1,504	21.7 %
*Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 267	\$ 679	\$ 412	\$ 575	\$ 1,214	\$ 639	111.1 %
State Board of Education	985	1,314	329	1,514	1,437	(77)	(5.1)
Human Services	360	320	(40)	906	950	44	4.9
Teachers Retirement	342	390	48	1,036	1,181	145	14.0
University Retirement System	0	(146)	(146)	394	440	46	11.7
All Other Higher Education	264	206	(58)	599	1,569	970	161.9
Corrections	96	78	(18)	283	265	(18)	(6.4)
State Employees Retirement System	109	126	17	327	378	51	15.6
Central Management Services	7	327	320	59	488	429	727.1
Children and Family Services	25	53	28	168	181	13	7.7
Aging	75	142	67	157	476	319	203.2
State Police	14	12	(2)	51	49	(2)	(3.9)
All Other	112	132	20	359	416	57	15.9
Total	\$ 2,656	\$ 3,633	\$ 977	\$ 6,428	\$ 9,044	\$ 2,616	40.7 %
Regular Transfers Out	472	409	(63)	928	1,082	154	16.6
Prior Year Adjustments	(3)	(1)	2	5	(2)	(7)	(140.0)
Vouchers Payable Adjustment	(563)	(605)	(42)	(497)	(906)	(409)	N/A
Total, Base Expenditures	\$ 2,562	\$ 3,436	\$ 874	\$ 6,864	\$ 9,218	\$ 2,354	34.3 %
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,562	3,436	874	6,864	9,218	2,354	34.3
*AVAILABLE CASH BALANCE, ENDING	\$ 309	\$ 581	\$ 272	\$ 309	\$ 581	\$ 272	88.0 %

*Note: You will notice a large increase in the amount of General Funds from calendar year 2016 to calendar year 2017 and from fiscal year 2017 to fiscal year 2018. This is because pursuant to Public Act 100-0023, beginning with the 2018 fiscal year, the number of funds that make up the state's General Funds was expanded from four to seven. Revenues to and expenditures from the General Funds now reflect the four original funds (General Revenue Fund, General Revenue-Common School Special Account Fund, Education Assistance Fund, and Common School Fund) and three additional funds (Fund for the Advancement of Education, Commitment to Human Services Fund, and Budget Stabilization Fund). For more information, please contact the Office of the Comptroller.

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	September		Change	Three Months		Change	
	2016	2017		FY 2017	FY 2018	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 46	\$ 630	\$ 584	\$ 64	\$ 314	\$ 250	390.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 972	\$ 1,186	\$ 214	\$ 2,473	\$ 2,923	\$ 450	18.2 %
Corporate	233	308	75	267	383	116	43.4
Total, Income Taxes	1,205	1,494	289	2,740	3,306	566	20.7
Sales Taxes	522	505	(17)	1,580	1,551	(29)	(1.8)
Other Sources:							
Public Utility Taxes	62	62	0	189	195	6	3.2
Cigarette Taxes	21	23	2	62	69	7	11.3
Inheritance Tax (gross)	39	35	(4)	79	74	(5)	(6.3)
Liquor Gallonage Taxes	14	16	2	44	46	2	4.5
Insurance Tax and Fees	77	71	(6)	108	113	5	4.6
Corporation Franchise Tax and Fees	32	24	(8)	57	52	(5)	(8.8)
Investment Income	3	3	0	6	11	5	83.3
Cook County IGT	0	0	0	0	0	0	0.0
Other	35	31	(4)	114	112	(2)	(1.8)
Total, Other Sources	283	265	(18)	659	672	13	2.0
Total, Cash Receipts	\$ 2,010	\$ 2,264	\$ 254	\$ 4,979	\$ 5,529	\$ 550	11.0 %
Transfers In	41	37	(4)	181	254	73	40.3
Total, State Sources	\$ 2,051	\$ 2,301	\$ 250	\$ 5,160	\$ 5,783	\$ 623	12.1 %
Federal Sources	\$ 241	\$ 186	\$ (55)	\$ 724	\$ 1,179	\$ 455	62.8 %
Total, Base Revenues	\$ 2,292	\$ 2,487	\$ 195	\$ 5,884	\$ 6,962	\$ 1,078	18.3 %
Interfund Borrowing	0	0	0	0	150	150	0.0
Short Term Borrowing	0	0	0	0	0	0	0.0
Total, Revenues	\$ 2,292	\$ 2,487	\$ 195	\$ 5,884	\$ 7,112	\$ 1,228	20.9 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 267	\$ 679	412	575	1,214	639	111.1
State Board of Education	530	786	256	604	909	305	50.5
Human Services	360	320	(40)	906	947	41	4.5
University Retirement System	0	(146)	(146)	394	439	45	11.4
All Other Higher Education	1	26	25	2	605	603	30,150.0
Corrections	96	78	(18)	283	265	(18)	(6.4)
State Employees Retirement System	109	126	17	327	378	51	15.6
Central Management Services	7	327	320	59	488	429	727.1
Children and Family Services	25	53	28	168	181	13	7.7
Aging	75	27	(48)	157	110	(47)	(29.9)
State Police	14	12	(2)	51	49	(2)	(3.9)
All Other	122	139	17	398	449	51	12.8
Total	\$ 1,606	\$ 2,427	\$ 821	\$ 3,924	\$ 6,034	\$ 2,110	53.8 %
Regular Transfers Out	1,011	1,137	126	2,022	2,005	(17)	(0.8)
Prior Year Adjustments	(3)	(1)	2	5	(2)	(7)	(140.0)
Vouchers Payable Adjustment	(468)	(508)	(40)	(195)	(673)	(478)	N/A
Total, Base Expenditures	\$ 2,146	\$ 3,055	\$ 909	\$ 5,756	\$ 7,364	\$ 1,608	27.9 %
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,146	3,055	909	5,756	7,364	1,608	27.9
AVAILABLE CASH BALANCE, ENDING	\$ 192	\$ 62	\$ (130)	\$ 192	\$ 62	\$ (130)	(67.7) %