

Illinois' Late Payment Interest Penalty Ledger

	1	2	3	4	5	6
1	Governor					
2	EDGAR					
3	FY98-FY99					
4	\$ 4,674,425.88					
5						
6	RYAN					
7	FY00-FY03					
8	\$ 13,327,272.60					
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26	BLAGOJEVICH					
27	FY04-FY09					
28	\$ 92,491,953.75					
29						
30						
31	QUINN					
32	FY10-FY15					
33	\$ 929,124,434.43					
34						
35						
36	RAUNER					
37	FY16-FY18					
38	\$ 1,139,654,147.31					
39						
40						

# SPECIAL REPORT ON LATE PAYMENT INTEREST PENALTIES

Addendum to the April 2018 DTA Report



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## ADDENDUM TO THE APRIL 2018 DTA REPORT

### SUMMARY

- Late payment interest penalties pending at the Office of the Comptroller totaled \$553 million – liabilities that require state revenues, but do not directly fund state services.
- 97% of the pending late payment interest penalties at the Office of the Comptroller was owed to medical bills for state employee health insurance and Medicaid.
- Roughly 55% is vouchered to third-party lenders.
- Late payment interest penalties owed for just the past two-and-a-half years, dominated by a lengthy budget impasse, exceed the total penalties accumulated in the prior 18 years.

As noted in Debt Transparency Act Report No. 4, \$553 million in late payment interest penalties was pending at the Office of the Comptroller (IOC) as of March 31, 2018. There was \$100.5 million payable from the General Revenue Fund and \$440.7 million payable from the Health Insurance Reserve Fund, with the remaining payables allocated to other state funds. These late payment interest penalties are liabilities that must be paid with state revenues, but do not go directly to fund state services designed to meet the needs of Illinois residents.

Most of the penalties are owed pursuant to the State Prompt Payment Act. **The Act requires late payment interest penalties be paid when bills are delayed more than 90 days, and interest owed is calculated at 12 percent per year after that 90 days.** Timely Pay, under the Insurance Code, requires interest penalties be paid to vendors when payments are delayed more than 30 days. About \$149.2 million in penalties pending at the IOC,

primarily for Central Management Service’s (CMS) Group Health Insurance program, are this type of payment. **Interest for timely pay is calculated at 9 percent per year.**

Notably, of the late payment interest penalties vouchered and pending at the IOC, the majority were in small-dollar increments. Of the 19,738 vouchers pending, 15,104 are under \$1,000. Just 60 vouchers out of the nearly 20,000 pending at the IOC were for more than \$1 million, but made up 74.9 percent of the total late payment interest penalties owed at the IOC.

### State Agency Distribution of Late Payment Interest Penalties

Table 2 shows a side-by-side comparison of late payment interest penalties pending at the IOC and at the agency level, by originating agency.

By far, the agency with the most vouchered late payment interest penalties pending at the IOC was CMS, with \$441,733,462, or 79.9 percent of all pending vouchered late payment interest penalties. The Department of Healthcare and Family Services (HFS) had pending late payment interest penalty vouchers totaling \$94,233,437.

The fact that CMS and HFS comprise the majority of pending late payment interest penalty vouchers (96.9 percent) highlights **the number of large-dollar delayed interest payments owed to health care vendors and providers.**

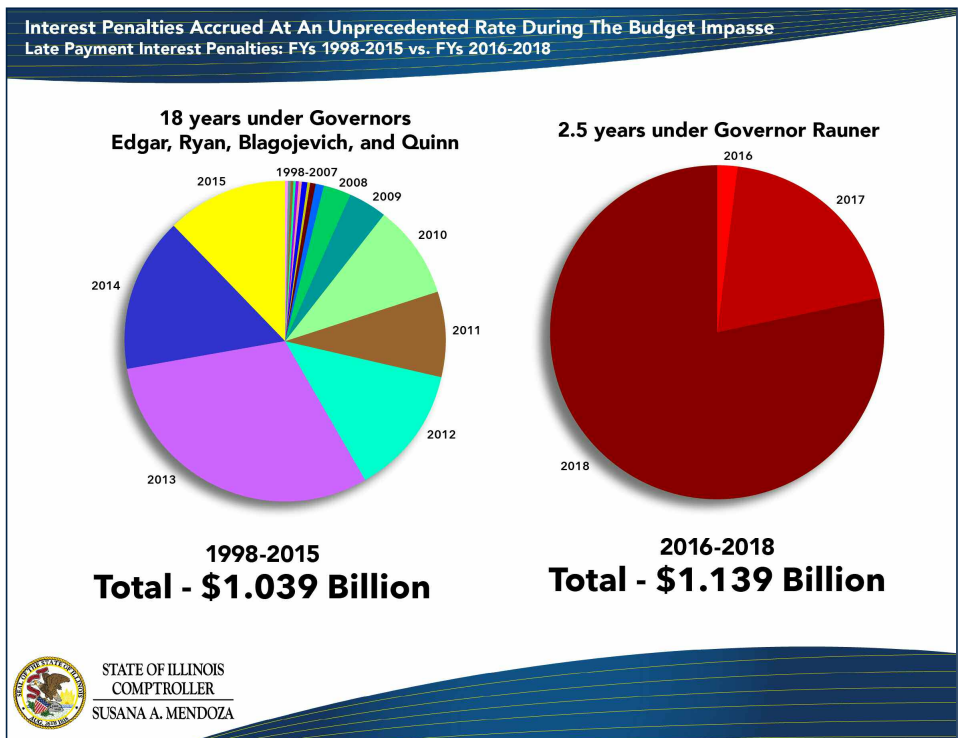
**Table 1: Makeup of IOC Pending Late Payment Interest Penalties by Type (\$ in Millions)**

	GRF/HIRF	Other Funds	Total
State Prompt Payment Penalties	\$392	\$12	\$404
Timely Pay Penalties	\$149	\$0	\$149
<b>Total</b>	<b>\$541</b>	<b>\$12</b>	<b>\$553</b>



There are state agencies still holding significant levels of liabilities due to insufficient appropriations. For instance, the Department of Corrections reports it is holding \$414 million in unpaid liabilities as of the end of March and insufficient appropriations to send those bills, including the associated late payment interest penalty costs, to the IOC. Moreover, as identified in Debt Transparency Act (DTA) Report No. 4, CMS's Group Health Insurance program faces a funding shortfall from the General Revenue Fund to get all of its delayed payments made.

Thus, **the estimated accrued late payment interest penalties at the agency level, including Corrections and CMS, continues to grow**, since in many cases the original bill that is accruing late payment interest penalties has yet to be vouchered and sent to the Office of the Comptroller (IOC) for payment.



### Late Payment Interest Penalties During the Impasse and Use of Vendor Assistance Program

Between fiscal years 1998 and 2015, vouchered late payment interest penalties owed to vendors providing services to the state totaled about \$1.0396 billion. In fiscal year 2016, fiscal year 2017 and through the first three quarters of fiscal year 2018, vouchers totaling \$841.5 million in late payment interest penalties had been sent to the IOC.<sup>2</sup> Additionally, in DTA Report No. 4, state agencies estimated pending late payment interest penalty liabilities of \$298.1 million, **bringing the estimated two-and-a-half-year total late payment interest penalty cost, dominated by a lengthy budget impasse, to \$1.1396 billion.**

**In other words, during the past two-and-a-half years, state government built up late payment interest penalties totaling \$100 million more than it had paid in the previous 18 years combined.**

Furthermore, due to Illinois' worsened fiscal condition during the impasse period, which caused, in some cases, delays in bill payments of up to two years, many struggling state vendors sold the amount the state owed them to qualified third-party entities, known as qualified purchasers, through state administered debt sale programs such as the Vendor Payment Program (VPP) and Vendor Support Initiative (VSI). Vendors that utilized these programs received a large portion of their owed debt through a qualified purchaser in exchange for the late payment interest penalties owed on the debt.<sup>3</sup>

**Of the nearly \$553 million of late payment interest penalties pending at the IOC, roughly 55 percent is vouchered to be paid to third-party lenders.**

VPP was an important lifeline to state vendors that struggled during the budget impasse to meet operational costs for services already rendered, and although VPP and VSI can be considered important administrative tools to assist state vendors, their use contributed to the extreme length of the budget impasse, which ultimately resulted in a record accumulation of late payment interest penalties. This record accumulation of late payment interest penalties highlights the significant negative impact the impasse had on the state's finances and should serve as a caution to policymakers about the dangers of allowing interest costs to skyrocket unabated in the future.

<sup>1</sup> Vouchered Late Payment Interest Penalties, fiscal years 1998-2015. SAMS Illinois State Comptroller's Office, March 2018

<sup>2</sup> Vouchered Late Payment Interest Penalties, fiscal years 2016-2018. SAMS Illinois State Comptroller's Office, March 2018

<sup>3</sup> When Illinois refinanced a portion of state debt in November 2017 through a \$6 billion general obligation bond sale, more than \$2.3 billion in backlogged bills was paid to entities that had purchased late accounts receivable during the budget impasse.



Table 2: Pending Late Payment Interest Penalties by Agency

Agency Name	Amount Pending at Comptroller's Office	Amount Reported at Agency <sup>4</sup>
Aging	\$ 10	\$ -
Agriculture	\$ -	\$ 9,000
Architect of the Capitol	\$ 57,350	\$ -
Auditor General	\$ 16,202	\$ -
Board of Higher Education	\$ 10,436	\$ -
Capital Development Board	\$ 80,508	\$ -
Central Management Services	\$ 441,733,462	\$ 142,430,151
Civil Service Commission	\$ 51	\$ 5,000
Commerce and Economic Opportunity	\$ 881,110	\$ -
Commission on Government Forecasting and Accountability	\$ 8,602	\$ -
Commission on Human Rights	\$ 219	\$ -
Community College Board	\$ 3,898	\$ -
Comptroller	\$ 81,243	\$ -
Corrections	\$ 5,129,355	\$ 59,825,000
Criminal Justice Information Authority	\$ 390	\$ -
Deaf and Hard of Hearing Commission	\$ 992	\$ -
Educational Labor Relations Board	\$ 1,158	\$ -
Executive Ethics Commission	\$ -	\$ 16,028
General Assembly	\$ 288,629	\$ -
Governor	\$ 73	\$ -
Healthcare and Family Services	\$ 94,233,437	\$ 75,369,000
Human Rights Commission	\$ -	\$ 205
Human Services	\$ 939,713	\$ 183,000
Innovation and Technology	\$ 5,432,985	\$ 15,952,000
Judicial Inquiry Board	\$ 4,660	\$ -
Juvenile Justice	\$ 209,209	\$ 179,000
Labor Relations Board	\$ 320	\$ -
Legislative Audit Commission	\$ 152	\$ -
Legislative Information System	\$ 138,969	\$ -
Legislative Printing Unit	\$ 42,260	\$ -
Legislative Reference Bureau	\$ 12,409	\$ -
Legislative Research Unit	\$ 4,202	\$ -
Lieutenant Governor	\$ 1,553	\$ -
Military Affairs	\$ -	\$ 328,000
Natural Resources	\$ 51,208	\$ 50,529
Office of Inspector General	\$ 908	\$ 104,500
Office of the State Appellate Defender	\$ 60,410	\$ -
Prisoner Review Board	\$ 5,374	\$ 5,000
Procurement Policy Board	\$ 1,901	\$ -
Public Health	\$ 347	\$ 61,000
Revenue	\$ 24,299	\$ 163
Secretary of State	\$ 579,355	\$ 516,000
State Board of Education	\$ 2,101,110	\$ 271,000
State Board of Elections	\$ 169,280	\$ 3,000
State Police	\$ 520	\$ 2,727,000
Supreme Court	\$ 346,113	\$ -
State Universities Civil Service Merit Board	\$ 1,316	\$ -
State's Attorneys Appellate Prosecutor	\$ 6,086	\$ -
Treasurer	\$ 206,081	\$ -
Veterans Affairs	\$ -	\$ 105,000
<b>TOTAL</b>	<b>\$ 552,867,865</b>	<b>\$ 298,139,576</b>

<sup>4</sup> Amount reported as held at the agency level from submissions by the agencies for Debt Transparency Report No. 4, for the period ending March 31, 2018.

