

Comptroller's Quarterly

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General Funds Revenues Decline For Second Straight Year

During fiscal year 2003, General Funds “base” revenues (total revenues less short-term borrowing) declined for the second consecutive year, falling \$292 million or 1.2%. This number is misleading because it includes \$465 million in extraordinary revenues including \$165 million in transfers from other state funds and \$300 million resulting from the sale of Pension Obligation Bonds. If these resources are removed as well, General Funds revenues would have been down \$757 million, compared to last fiscal year’s \$728 million decline. This is the first time in a half century that the state has suffered two consecutive years of revenue declines.

For the year, total revenues were up \$1.383 billion or 5.9%. This increase was aided by a \$1.675 billion increase in short-term borrowing, including \$700 million in July 2002 and \$975 million in May 2003. The July borrowing, as well as a \$226 million loan from the Budget Stabilization Fund, were repaid during the fiscal year as required by state law. The May borrowing will have to be repaid from FY 2004 resources.

In spite of the infusion of extraordinary revenues, short-term borrowing and rainy-day dollars, fiscal year 2003 ended with \$874 million in unpaid bills, up from \$781 million at the end of last year. Payment delays plagued the General Funds for all but five days during the year and reached a high of 52 days during parts of April and May. The delays going into fiscal year 2004 total 44 business days compared to 29 days at the end of last year.

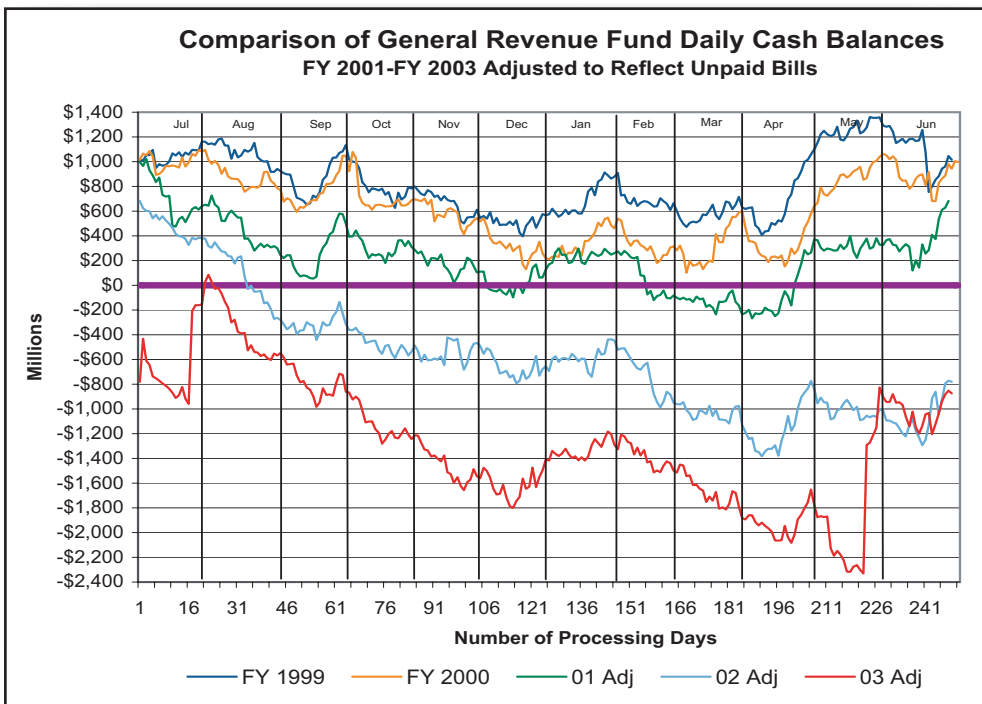
At the end of June, the General Funds cash balance was \$317 million, \$61 million more

than what was in the bank at the end of fiscal year 2002. The minor improvement in the cash balance was concentrated in the three school funds that are included in the General Funds group. In the General Revenue Fund (the state’s largest operating fund) the cash balance increased from \$0 to \$1 million over the year. In addition to the lack of a balance on June 30, 2003, there were \$874 million in bills on hand that could not be paid, resulting in an effective General Revenue Fund (GRF) balance of a negative \$873 million compared to a negative \$781 million last year (see graph). If the May 2003 short-term borrowing proceeds are taken into consideration, the GRF cash position would have been a negative \$1.848 billion, \$1.067 billion worse than at the end of last year.

Base Revenues Decline 1.2%

Total revenues for fiscal year 2003 were \$24.987 billion. Excluding \$1.675 billion in short-term borrowing and \$226 million from the Budget Stabilization Fund, base revenues totaled \$23.086 billion. Base revenues for the year were \$292 million or 1.2% below last year’s figure. Federal sources fell \$318 million while state sources increased only \$26 million. Fiscal year 2003 marks the second consecutive year of a decrease in base revenues.

State cash receipts decreased by \$479 million and were offset by an increase in transfers-in of \$505 million. The decline in cash receipts was once again tied to those sources impacted by the economy. Individual



income taxes were down \$130 million or 1.7% and corporate income taxes fell 8.1% or \$65 million. Sales tax receipts increased only \$8 million or 0.1%. The economy continued to deteriorate at the beginning of the year and has since leveled off. Unemployment increased early in the year but has stabilized over the past couple of months. Stocks continued to decline during the first half of the year but have increased slightly since then.

Other notable changes in cash receipts include public utility taxes which fell \$98 million as telecommunication taxes decreased by \$122 million and gas taxes increased \$24 million. Inheritance taxes declined \$92 million due to the change in federal law. Investment income was down \$70 million due to lower investable balances and interest rates. The decrease in all other receipts was due to the \$265 million drop in transfers from the Build Illinois Escrow Account which was depleted last year. Insurance taxes increased \$41 million due in part to the decline in corporate income taxes which are allowed as deductions. Cook County inter-governmental transfers were up \$110 million due to a new agreement.

The transfers-in increase was primarily from one-time factors. A new transfer from the Pension Contribution Fund totaled \$300 million. Pension bonds were issued this year with a portion used to support the General Revenue Fund. There were \$165 million in surplus transfers from various funds and riverboat gambling transfers were up \$84 million due to a tax increase.

Federal transfers were down primarily due to a decline in social service block grant monies. Federal cash receipts decreased due to a decline in federally reimbursable spending as well as other deviations in federal draws or deposits.

Base Expenditures Down 1.1%

At the end of fiscal year 2003, General Funds spending totaled \$24.926 billion, \$452 million or 1.8% above last year. The \$452 million increase includes a \$710 million increase in transfers to repay short-term borrowing. As a result, base expenditures decreased by \$258 million or 1.1% from the prior year. At the end of fiscal year 2003,

General Funds base expenditures (which excludes \$936 million in transfers to repay short-term borrowing) totaled \$23.990 billion, \$258 million or 1.1% below last year. This stands in sharp contrast to the first half of the year when spending grew \$58 million. Through the first half of fiscal year 2003, grant spending was up \$272 million while operations spending decreased by \$164 million. In the second half of the year, grant spending declined by \$671 million while operations spending decreased by another \$214 million compared to last year.

For the year, spending from current year appropriations decreased by \$676 million. The decrease in spending from current year appropriations is due to both lower appropriation levels and other spending restrictions imposed as it became evident that revenues were underperforming. General Funds appropriations for fiscal year 2003 of \$22.335 billion are \$1.075 billion below fiscal year 2002.

The bulk of the spending slowdown occurred in Medicaid. Through the first half of the fiscal year, Medicaid spending was up \$430 million or 17.4%. This jump was due to a concentrated effort to dedicate short-term borrowing dollars to the backlog of Medicaid vouchers in an effort to maximize federal matching dollars returned to the General Revenue Fund. In the second half of the year, Medicaid spending declined by \$527 million to finish the year down \$97 million or 1.9%. The slowdown was expected as Medicaid had exhausted 58.8% of its appropriations through the first half of the fiscal year compared to only 48.7% in the first half of fiscal year 2002.

Other areas of grant spending which declined include the State Board of Education (down \$22 million or 0.4%), Department of Human Services (down \$97 million or 1.9%), higher education (down \$70 million or 7.9%) and all other grants (down \$273 million or 19.2%). The only large area of grant spending that increased was teacher's retirement which was up \$110 million or 13.4%.

Spending for operations totaled \$6.561 billion for fiscal year 2003, \$378 million lower than comparable expenditures last year. Higher education operations decreased 4.8% or \$84 million, while all other operations decreased \$294 million or 5.7%. Over

half (\$197 million or 52.1%) of the decrease in operations spending was for personal services and reflects the impact of the early retirement program.

What Lies Ahead?

Over the course of the fiscal year, the state's GRF cash position was clearly much worse than last year. Unfortunately, one question is just as applicable to the current situation as it was last year. Is the worst of the financial news behind us? Just as last year, the answer depends on the economy, revenue enhancements and spending controls.

In the short-term, cash flow is likely to be worse than last year due primarily to three factors. First, unpaid bills carried over to the next year are higher than in 2002. Second, there is no infusion of short-term borrowing planned. Although early July will see about \$154 million in surplus transfers and another \$226 million loan from the Budget Stabilization Fund, there will not be a trip to the short-term bond market. Third, since 2003 Medicaid spending authority was all but exhausted in May, there is likely to be a surge in Medicaid spending demands during the summer in an effort to reduce payment cycles below their end-of-year levels.

Will the economy grow as expected? Perhaps a better question is whether the economic declines will end. During fiscal year 2003, the economy failed to produce the growth that was expected. While it is still too early to tell, recent evidence might be indicating that the economic fall is moderating, setting the stage for growth a little later in the year.

These concerns are similar to those raised at this time last year. Unfortunately, fiscal year 2003 "base" revenues fell almost \$1.6 billion short of original expectations. Will the economy produce revenue growth this time around? Will new revenue enhancements and the anticipated sale of state assets meet projections? Will spending controls be more effective? If all these measures meet expectations, cash flow may improve over the course of the year. However, state policy makers should be prepared to deal with another difficult year as uncertainties abound.

GENERAL FUNDS TRANSACTIONS

(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2002	2003		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 292	\$ 260	\$ (32)	\$ 1,126	\$ 256	\$ (870)	(77.3) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 644	\$ 631	\$ (13)	\$ 7,471	\$ 7,341	\$ (130)	(1.7) %
Corporate	116	114	(2)	803	738	(65)	(8.1)
Total, Income Taxes	760	745	(15)	8,274	8,079	(195)	(2.4)
Sales Taxes	513	523	10	6,051	6,059	8	0.1
Other Sources:							
Public Utility Taxes	96	53	(43)	1,104	1,006	(98)	(8.9)
Cigarette Taxes	33	33	0	400	400	0	0.0
Inheritance Tax (gross)	29	17	(12)	329	237	(92)	(28.0)
Liquor Gallonage Taxes	11	10	(1)	122	123	1	0.8
Insurance Tax and Fees	56	61	5	272	313	41	15.1
Corporation Franchise							
Tax and Fees	19	10	(9)	159	142	(17)	(10.7)
Investment Income	6	6	0	136	66	(70)	(51.5)
Cook County IGT	23	23	0	245	355	110	44.9
Other	344	67	(277)	550	383	(167)	(30.4)
Total, Other Sources	617	280	(337)	3,317	3,025	(292)	(8.8)
Total, Cash Receipts	\$ 1,890	\$ 1,548	\$ (342)	\$ 17,642	\$ 17,163	\$ (479)	(2.7) %
Transfers In:							
Lottery Fund	\$ 56	\$ 72	\$ 16	\$ 555	\$ 540	\$ (15)	(2.7) %
State Gaming Fund	50	44	(6)	470	554	84	17.9
Pension Contribution Fund	0	300	300	0	300	300	N/A
Other Funds	82	48	(34)	453	589	136	30.0
Total, Transfers In	\$ 188	\$ 464	\$ 276	\$ 1,478	\$ 1,983	\$ 505	34.2 %
Total, State Sources	\$ 2,078	\$ 2,012	\$ (66)	\$ 19,120	\$ 19,146	\$ 26	0.1 %
Federal Sources:							
Cash Receipts	\$ 420	\$ 269	\$ (151)	\$ 4,133	\$ 3,904	\$ (229)	(5.5) %
Transfers In	50	0	(50)	125	36	(89)	(71.2)
Total, Federal Sources	\$ 470	\$ 269	\$ (201)	\$ 4,258	\$ 3,940	\$ (318)	(7.5) %
Total, Base Revenues	\$ 2,548	\$ 2,281	\$ (267)	\$ 23,378	\$ 23,086	\$ (292)	(1.2) %
Short-Term Borrowing	0	0	0	0	1,675	1,675	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	0.0
Total, Revenues	\$ 2,548	\$ 2,281	\$ (267)	\$ 23,604	\$ 24,987	\$ 1,383	5.9 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 779	\$ 740	\$ (39)	\$ 5,093	\$ 5,071	\$ (22)	(0.4) %
Public Aid	243	111	(132)	5,040	4,943	(97)	(1.9)
Human Services	152	118	(34)	2,608	2,561	(47)	(1.8)
Teachers Retirement	69	77	8	821	931	110	13.4
Higher Education	12	22	10	885	815	(70)	(7.9)
All Other Grants	81	71	(10)	1,420	1,147	(273)	(19.2)
Total, Awards and Grants	1,336	1,139	(197)	15,867	15,468	(399)	(2.5)
Operations:							
Other Agencies	421	482	61	5,179	4,885	(294)	(5.7)
Higher Education	75	48	(27)	1,760	1,676	(84)	(4.8)
Total, Operations	496	530	34	6,939	6,561	(378)	(5.4)
Regular Transfers Out	357	195	(162)	2,159	2,031	(128)	(5.9)
All Other (Includes Prior Year Adjustments)	5	2	(3)	53	24	(29)	(54.7)
Vouchers Payable Adjustment	164	(2)	(166)	(770)	(94)	676	N/A
Total, Base Expenditures	\$ 2,358	\$ 1,864	\$ (494)	\$ 24,248	\$ 23,990	\$ (258)	(1.1) %
Transfers to Repay Short-Term Borrowing	226	360	134	226	936	710	N/A
Total, Expenditures	2,584	2,224	(360)	24,474	24,926	452	1.8
AVAILABLE CASH BALANCE, ENDING	\$ 256	\$ 317	\$ 61	\$ 256	\$ 317	\$ 61	23.8 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2002	2003		FY 2002	FY 2003	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 59	\$ 31	\$ (28)	\$ 683	\$ 0	\$ (683)	(100.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 597	\$ 585	\$ (12)	\$ 6,926	\$ 6,805	\$ (121)	(1.7) %
Corporate	108	106	(2)	744	685	(59)	(7.9)
Total, Income Taxes	705	691	(14)	7,670	7,490	(180)	(2.3)
Sales Taxes	385	393	8	4,545	4,551	6	0.1
Other Sources:							
Public Utility Taxes	85	47	(38)	981	904	(77)	(7.8)
Cigarette Taxes	22	22	0	260	263	3	1.2
Inheritance Tax (gross)	29	17	(12)	329	237	(92)	(28.0)
Liquor Gallonage Taxes	11	10	(1)	122	123	1	0.8
Insurance Tax and Fees	56	61	5	272	313	41	15.1
Corporation Franchise Tax and Fees	19	10	(9)	159	142	(17)	(10.7)
Investment Income	6	5	(1)	135	65	(70)	(51.9)
Cook County IGT	23	23	0	245	355	110	44.9
Other	344	67	(277)	544	373	(171)	(31.4)
Total, Other Sources	595	262	(333)	3,047	2,775	(272)	(8.9)
Total, Cash Receipts	\$ 1,685	\$ 1,346	\$ (339)	\$ 15,262	\$ 14,816	\$ (446)	(2.9) %
Transfers In:							
Regular Transfers In	\$ 82	\$ 48	\$ (34)	\$ 454	\$ 589	\$ 135	29.7 %
Pension Contribution Fund	0	300	300	0	300	300	N/A
Total, Transfers In	\$ 82	\$ 348	\$ 266	\$ 454	\$ 889	\$ 435	95.8 %
Total, State Sources	\$ 1,767	\$ 1,694	\$ (73)	\$ 15,716	\$ 15,705	\$ (11)	(0.1) %
Federal Sources:							
Cash Receipts	\$ 420	\$ 269	\$ (151)	\$ 4,133	\$ 3,904	\$ (229)	(5.5) %
Transfers In	50	0	(50)	125	36	(89)	(71.2)
Total, Federal Sources	\$ 470	\$ 269	\$ (201)	\$ 4,258	\$ 3,940	\$ (318)	(7.5) %
Total, Base Revenues	\$ 2,237	\$ 1,963	\$ (274)	\$ 19,974	\$ 19,645	\$ (329)	(1.6) %
Short-Term Borrowing	0	0	0	0	1,675	1,675	N/A
Transfer from Budget Stabilization Fund	0	0	0	226	226	0	0.0
Total, Revenues	\$ 2,237	\$ 1,963	\$ (274)	\$ 20,200	\$ 21,546	\$ 1,346	6.7 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 243	\$ 111	\$ (132)	\$ 5,040	\$ 4,943	\$ (97)	(1.9) %
Elementary and Secondary Education	241	221	(20)	1,854	1,921	67	3.6
Human Services	152	118	(34)	2,608	2,561	(47)	(1.8)
Higher Education	11	18	7	709	646	(63)	(8.9)
Children and Family Services	22	23	1	604	536	(68)	(11.3)
All Other Grants	60	55	(5)	820	687	(133)	(16.2)
Total, Awards and Grants	729	546	(183)	11,635	11,294	(341)	(2.9)
Operations:							
Other Agencies	421	482	61	5,179	4,885	(294)	(5.7)
Higher Education	54	48	(6)	1,463	1,493	30	2.1
Total, Operations	475	530	55	6,642	6,378	(264)	(4.0)
Regular Transfers Out	697	557	(140)	3,096	3,006	(90)	(2.9)
All Other (Includes Prior Adjustments)	5	2	(3)	53	25	(28)	(52.8)
Vouchers Payable Adjustment	164	(2)	(166)	(769)	(94)	675	N/A
Total, Base Expenditures	\$ 2,070	\$ 1,633	\$ (437)	\$ 20,657	\$ 20,609	\$ (48)	(0.2) %
Transfers to Repay Short-Term Borrowing	226	360	134	226	936	710	N/A
Total, Expenditures	2,296	1,993	(303)	20,883	21,545	662	3.2
AVAILABLE CASH BALANCE, ENDING	\$ 0	\$ 1	\$ 1	\$ 0	\$ 1	\$ 1	0.0 %