

Comptroller's Quarterly

JUDY BAAR TOPINKA, COMPTROLLER

Edition 5, April 2012

BACKLOG GROWS AS STATE TREADS WATER

Payment delays expected to persist

SPRINGFIELD- Despite being three quarters into the first full year of the state tax increases, Illinois' financial position has not improved. In fact, the bill backlog has increased in the most recent quarter, and payment delays are expected to persist for foreseeable future.

The backlog of unpaid bills from the General Funds in the Comptroller's Office (IOC) stood at \$5.57 billion at the end of this quarter – an increase of \$1.304 billion from the end of the second quarter. While part of that growth can be attributed to dollars owed for pension payments (which the state borrowed to make in previous years), the majority represents what is due to vendors. Specifically, the backlog is comprised of \$4.322 billion in the General Revenue Fund (\$121 million in backlogged pension payments), \$974 million in the Education Assistance Fund (\$193 million for pensions), and \$281 million in the Common School Fund (all for pensions).

The chart of adjusted General Revenue Fund (GRF) balances shows the total on March 30, 2012 to be negative \$4.285 billion. At the same time last year, the adjusted GRF balance was a negative \$4.515 billion. This does not include the other General Funds which have substantially larger backlogs than last year – in particular the Education Assistance Fund, as universities have already vouchered over 96 percent of their appropriations this year.

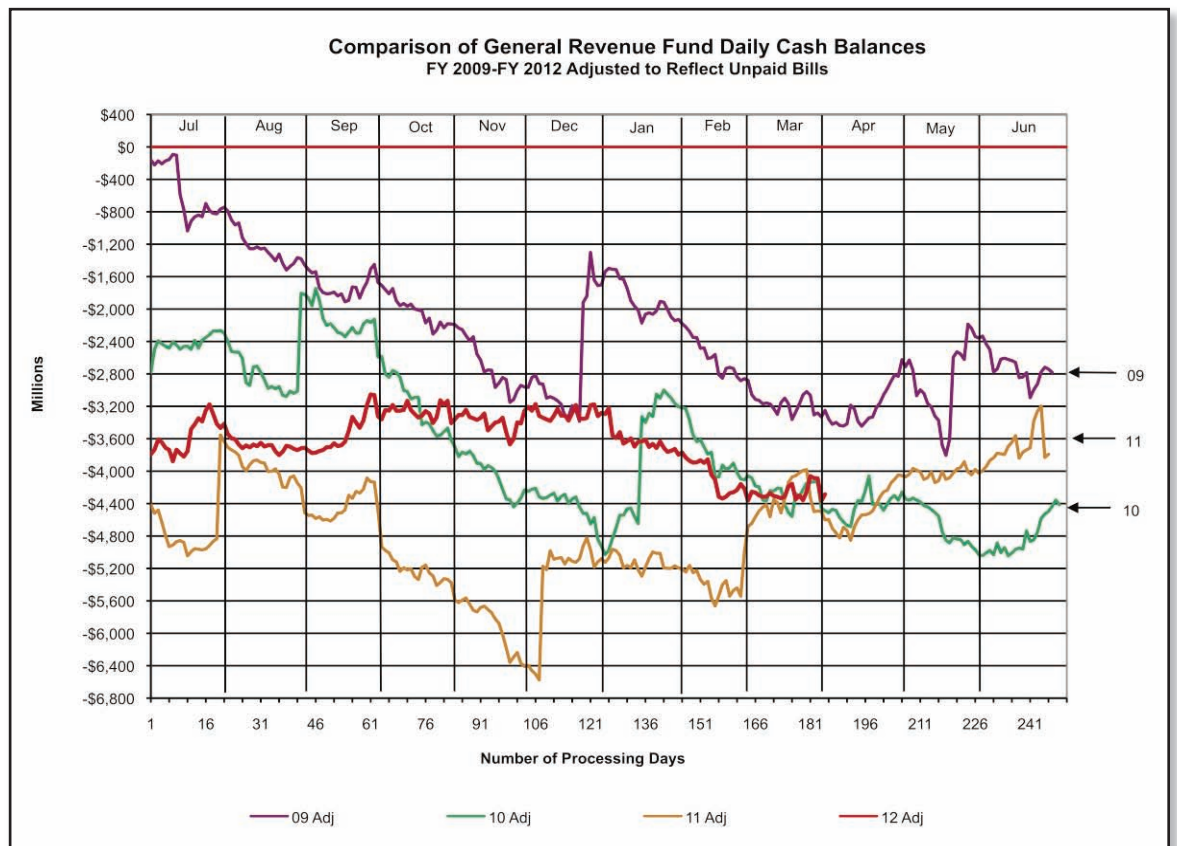
However, that adjusted backlog total accounts only for what has been submitted to the Comptroller for payment, and not what is being held by state agencies. For example, the Department of Healthcare and Family Services is holding an estimated \$2 billion in Medicaid bills. When Medicaid and other unpaid state obligations are considered, Illinois' estimated bill backlog at the end of the quarter rises to more than \$9 billion.

It is worth noting that state revenues actually increased by 3.9 percent through three quarters of the fiscal year, as income and sales tax growth offset decreases in federal revenues and

the transfer of tobacco bonds revenue. Still, base expenditures decreased 2.8 percent during that time because revenue growth did not fully replace dollars from last year's one-time revenue sources.

BASE REVENUES

The combination of tax increases and improved consumer spending led to growth in state source revenues. However, that growth was partially offset by declines in transfers in and federal funds. As a result, General Funds total base revenue increased \$886 million, or 3.9 percent.



Specifically, individual income tax receipts grew \$3.594 billion, or 50.4 percent, through the third quarter of FY 2012, while corporate income tax revenues increased by \$368 million, or 33.1 percent. As mentioned in the last quarterly report, with the mid-year implementation of the income tax increase in FY 2011, the fiscal year-to-date growth rate for individual income taxes has slowed from a 65.9 percent increase through the end of the second quarter to the current year-to-date increase of 50.4 percent.

Other factors impacting the state's base revenues so far this year include:

- **SALES TAX:** An improving economy increased sales tax revenues by \$314 million, or 6.2 percent. That increase would have been more, but tax amnesty accounted for \$164 million of last year's collections.
- **TRANSFERS:** Transfers in declined \$1.391 billion because \$1.25 billion from the Tobacco Settlement Recovery Fund (tobacco bonds) was transferred in December 2010. Transfers from the Capital Projects Fund are up year-to-date after the resolution of the protest of the 2009 liquor tax increase was settled. Specifically, a \$140 million transfer from the Protest Fund supported the \$215 million transfer from the Capital Projects Fund to the GRF in July 2011. Additionally, Lottery Fund transfers were up \$6 million and riverboat gambling transfers increased \$5 million. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues declined \$2.065 billion, or 48.2 percent, so far in FY 2012. That drop is attributed to a decrease in the federal reimbursement rate for Medicaid payments, and a slowdown in reimbursable payments.
- **OTHER RECEIPTS:** All other state receipts are up \$66 million, or 3.0 percent from the previous fiscal year. Specifically, public utility taxes decreased \$70 million and inheritance tax receipts increased by \$55 million,

while all other sources increased due to the final payment of \$73 million from the sale of the state's tenth riverboat license.

BASE EXPENDITURES

General Funds base spending decreased by \$679 million, or 2.8 percent, through the first nine months of FY 2012. For the third quarter specifically, spending increased \$522 million in January, \$67 million in February, and then fell \$210 million in March.

- **SOCIAL SERVICES:** The Department of Healthcare and Family Services had the largest decrease - \$1.260 billion or 19.4 percent - in vouchers presented for payment year-to-date among the major agencies. However, with DHFS appropriations up \$539 million in FY 2012, a higher rate of spending is anticipated for the remainder of the year, as was seen in the third quarter. The Department of Human Services was down \$387 million or 12.4 percent through three quarters (FY 2012 appropriations are down \$514 million).
- **EDUCATION:** Vouchers presented by the State Board of Education were down \$1 million through March. The agency's appropriations were down \$269 million, so spending will slow by the end of the year. The Teachers Retirement System (TRS) vouchers were up \$1.622 billion (appropriations up \$2.205 billion) and Higher Education grew \$548 million (appropriations up \$692 million). Both TRS and Higher Education spending are expected to continue to grow, as this year's pension payments are funded directly instead of through bonds as in the last two years.
- **ALL OTHER:** Spending from "all other" agencies increased as the GRF payment requests for state employees' retirements were shifted fully from the agencies (and bond sales) to the State Employees Retirement System. Aging's spending is up \$143 million while appropriations are up only \$87 million.

- **TRANSFERS OUT:** Transfers out for nine months of FY 2012 decreased by \$610 million, or 16.4 percent, when compared to last year. This does not include the \$292 million in interfund borrowing that has been paid back so far this year.

WHAT LIES AHEAD

Illinois continues to face staggering fiscal challenges. While tax revenues are up significantly, the falloff in federal revenues and current revenue funding of the payments to the pension systems create a situation where Illinois is essentially treading water.

The outlook for the remainder of the year will depend on the performance of revenues and spending decisions made by state agencies and the General Assembly. On a positive side, the State does not have to repay on a short-term borrowing before the end of the fiscal year, so the strong revenues projected for April should allow for a reduction of the backlog. However, passage of a supplemental appropriations bill, and agency decisions on lapsing appropriations, will greatly impact the backlog. It appears likely that at the end of June 2012, the General Funds backlog at the Comptroller's Office will be comparable to the backlog at the end of the last fiscal year: \$3.798 billion. However, even if there is a decline in the backlog of bills at IOC, there will be an end of year increase in the backlog of Medicaid bills that will offset any appearance of improvement.

One area of particular concern is the backlog in the Education Assistance Fund. While the backlog is estimated to decrease from the current \$974 million level in the fourth quarter, the backlog at the end of the year will be large enough to cause significant cash flow problems for the fund next year. Revenues into the fund in the first six months of FY 2012 totaled a little over \$750 million. If the lapse period is extended beyond the traditional end of August date, nearly 6 months of FY 2013 EAF revenues would need to be used for FY 2012 liabilities. This would set up major delays for any new FY 2013 appropriations from the fund. ■

Dear Readers: We are happy to continue your hard copy service, and ask that you review the name and address on this publication.

If changes need to be made to your address, or if you'd prefer to receive *Comptroller Quarterly* **ONLINE**, please provide us an email address.

Email your information to: AyersAD@mail.ioc.state.il.us

Alternatively, correspondence may be sent to:

Research & Fiscal Department, Attn: Comptroller Quarterly, Illinois Office of the Comptroller, 325 W. Adams Street, Springfield, IL 62704-1871

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2011	2012		FY 2011	FY 2012	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 138	\$ 224	\$ 86	\$ 130	\$ 469	\$ 339	260.8 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,260	\$ 1,357	\$ 97	\$ 7,128	\$ 10,722	\$ 3,594	50.4 %
Corporate	276	432	156	1,111	1,479	368	33.1
Total, Income Taxes	1,536	1,789	253	8,239	12,201	3,962	48.1
Sales Taxes	521	575	54	5,078	5,392	314	6.2
Other Sources:							
Public Utility Taxes	136	120	(16)	859	789	(70)	(8.1)
Cigarette Taxes	29	29	0	266	265	(1)	(0.4)
Inheritance Tax (gross)	1	39	38	118	173	55	46.6
Liquor Gallonage Taxes	11	12	1	119	124	5	4.2
Insurance Tax and Fees	37	61	24	200	228	28	14.0
Corporation Franchise Tax and Fees	22	15	(7)	162	148	(14)	(8.6)
Investment Income	3	3	0	25	15	(10)	(40.0)
Cook County IGT	0	0	0	150	150	0	0.0
Other	36	34	(2)	319	392	73	22.9
Total, Other Sources	275	313	38	2,218	2,284	66	3.0
Total, Cash Receipts	\$ 2,332	\$ 2,677	\$ 345	\$ 15,535	\$ 19,877	\$ 4,342	27.9 %
Transfers In:							
Lottery Fund	\$ 64	\$ 72	\$ 8	\$ 445	\$ 451	\$ 6	1.3 %
State Gaming Fund	17	18	1	259	264	5	1.9
Other Funds	305	58	(247)	1,986	584	(1,402)	(70.6)
Total, Transfers In	\$ 386	\$ 148	\$ (238)	\$ 2,690	\$ 1,299	\$ (1,391)	(51.7) %
Total, State Sources	\$ 2,718	\$ 2,825	\$ 107	\$ 18,225	\$ 21,176	\$ 2,951	16.2 %
Federal Sources	\$ 591	\$ 364	\$ (227)	\$ 4,282	\$ 2,217	\$ (2,065)	(48.2) %
Total, Base Revenues	\$ 3,309	\$ 3,189	\$ (120)	\$ 22,507	\$ 23,393	\$ 886	3.9 %
Short Term Borrowing	0	0	0	1,300	0	(1,300)	(100.0)
Interfund Borrowing	142	0	(142)	496	0	(496)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	235	275	40	17.0
Total, Revenues	\$ 3,451	\$ 3,189	\$ (262)	\$ 24,538	\$ 23,668	\$ (870)	(3.5) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 1,040	\$ 751	\$ (289)	\$ 6,489	\$ 5,229	\$ (1,260)	(19.4) %
State Board of Education	819	817	(2)	5,126	5,125	(1)	(0.0)
Human Services	321	304	(17)	3,117	2,730	(387)	(12.4)
Teachers Retirement	(1,194)	209	1,403	266	1,888	1,622	609.8
Higher Education	(373)	183	556	1,981	2,529	548	27.7
Corrections	101	98	(3)	898	926	28	3.1
Children and Family Services	83	86	3	704	689	(15)	(2.1)
Aging	69	71	2	514	657	143	27.8
State Police	21	22	1	199	205	6	3.0
All Other	(255)	197	452	1,339	2,081	742	55.4
Total	\$ 632	\$ 2,738	\$ 2,106	\$ 20,633	\$ 22,059	\$ 1,426	6.9 %
Regular Transfers Out	282	342	60	3,719	3,109	(610)	(16.4)
Prior Year Adjustments	(4)	(4)	0	(15)	(85)	(70)	466.7
Vouchers Payable Adjustment	2,329	(47)	(2,376)	(303)	(1,728)	(1,425)	N/A
Total, Base Expenditures	\$ 3,239	\$ 3,029	\$ (210)	\$ 24,034	\$ 23,355	\$ (679)	(2.8) %
Cash Flow Transfer	60	0	(60)	60	0	(60)	(100.0)
Transfers to Repay Budget Stabilization Fund	0	0	0	276	275	(1)	(0.4)
Transfers to Repay Interfund Borrowing	0	169	169	8	292	284	3,550.0
Transfers to Repay Short-Term Borrowing	160	0	(160)	160	0	(160)	(100.0)
Total, Expenditures	3,459	3,198	(261)	24,538	23,922	(616)	(2.5)
AVAILABLE CASH BALANCE, ENDING	\$ 130	\$ 215	\$ 85	\$ 130	\$ 215	\$ 85	65.4 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2011	2012		FY 2011	FY 2012	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 61	\$ 86	\$ 25	\$ 20	\$ 7	\$ (13)	(65.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,168	\$ 1,258	\$ 90	\$ 6,591	\$ 9,939	\$ 3,348	50.8 %
Corporate	256	400	144	930	1,371	441	47.4
Total, Income Taxes	1,424	1,658	234	7,521	11,310	3,789	50.4
Sales Taxes	391	432	41	3,746	4,042	296	7.9
Other Sources:							
Public Utility Taxes	124	111	(13)	775	717	(58)	(7.5)
Cigarette Taxes	23	18	(5)	179	183	4	2.2
Inheritance Tax (gross)	1	39	38	118	173	55	46.6
Liquor Gallonage Taxes	11	12	1	119	124	5	4.2
Insurance Tax and Fees	37	61	24	200	228	28	14.0
Corporation Franchise Tax and Fees	22	15	(7)	162	148	(14)	(8.6)
Investment Income	3	3	0	25	15	(10)	(40.0)
Cook County IGT	0	0	0	150	150	0	0.0
Other	36	34	(2)	316	389	73	23.1
Total, Other Sources	257	293	36	2,044	2,127	83	4.1
Total, Cash Receipts	\$ 2,072	\$ 2,383	\$ 311	\$ 13,311	\$ 17,479	\$ 4,168	31.3 %
Transfers In	135	58	(77)	1,814	584	(1,230)	(67.8)
Total, State Sources	\$ 2,207	\$ 2,441	\$ 234	\$ 15,125	\$ 18,063	\$ 2,938	19.4 %
Federal Sources	\$ 591	\$ 364	\$ (227)	\$ 4,282	\$ 2,217	\$ (2,065)	(48.2) %
Total, Base Revenues	\$ 2,798	\$ 2,805	\$ 7	\$ 19,407	\$ 20,280	\$ 873	4.5 %
Short Term Borrowing	0	0	0	1,300	0	(1,300)	(100.0)
Interfund Borrowing	142	0	(142)	496	0	(496)	(100.0)
Transfer from Budget Stabilization Fund	0	0	0	235	275	40	17.0
Total, Revenues	\$ 2,940	\$ 2,805	\$ (135)	\$ 21,438	\$ 20,555	\$ (883)	(4.1) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 1,040	\$ 751	(289)	\$ 6,489	\$ 5,229	(1,260)	(19.4)
State Board of Education	402	393	(9)	1,770	1,713	(57)	(3.2)
Human Services	321	304	(17)	3,117	2,730	(387)	(12.4)
Higher Education	(390)	46	436	1,829	471	(1,358)	(74.2)
Corrections	101	98	(3)	898	926	28	3.1
Children and Family Services	83	86	3	704	689	(15)	(2.1)
Aging	69	71	2	514	657	143	27.8
State Police	21	22	1	199	205	6	3.0
All Other	(255)	200	455	1,350	2,109	759	56.2
Total	\$ 1,392	\$ 1,971	\$ 579	\$ 16,870	\$ 14,729	\$ (2,141)	(12.7) %
Regular Transfers Out	333	765	432	4,447	5,779	1,332	30.0
Prior Year Adjustments	(3)	(4)	(1)	(16)	(78)	(62)	387.5
Vouchers Payable Adjustment	1,043	(48)	(1,091)	(363)	(473)	(110)	N/A
Total, Base Expenditures	\$ 2,765	\$ 2,684	\$ (81)	\$ 20,938	\$ 19,957	\$ (981)	(4.7) %
Cash Flow Transfer	60	0	(60)	60	0	(60)	(100.0)
Transfer to Repay Budget Stabilization Fund	0	0	0	276	275	(1)	(0.4)
Transfer to Repay Interfund Borrowing	0	169	169	8	292	284	3,550.0
Transfers to Repay Short-Term Borrowing	160	0	(160)	160	0	(160)	(100.0)
Total, Expenditures	2,985	2,853	(132)	21,442	20,524	(918)	(4.3)
AVAILABLE CASH BALANCE, ENDING	\$ 16	\$ 38	\$ 22	\$ 16	\$ 38	\$ 22	137.5 %