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Comptroller's Quarterly

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BACKLOG PERSISTS DESPITE NEW REVENUE

Little improvement seen one year after tax increases

SPRINGFIELD– One year after Illinois raised individual and corporate income tax rates, the state remains in a precarious fiscal position with persistent payment delays – and the situation is unlikely to significantly improve in the near-term.

The backlog of unpaid bills from the General Funds in the Comptroller's Office (IOC) alone stood at $4.273 billion at the end of this quarter – and that number only tells part of the story. Specifically, the total accounts only for what has been submitted to the Comptroller's Office 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 alone, which was not the case last year.

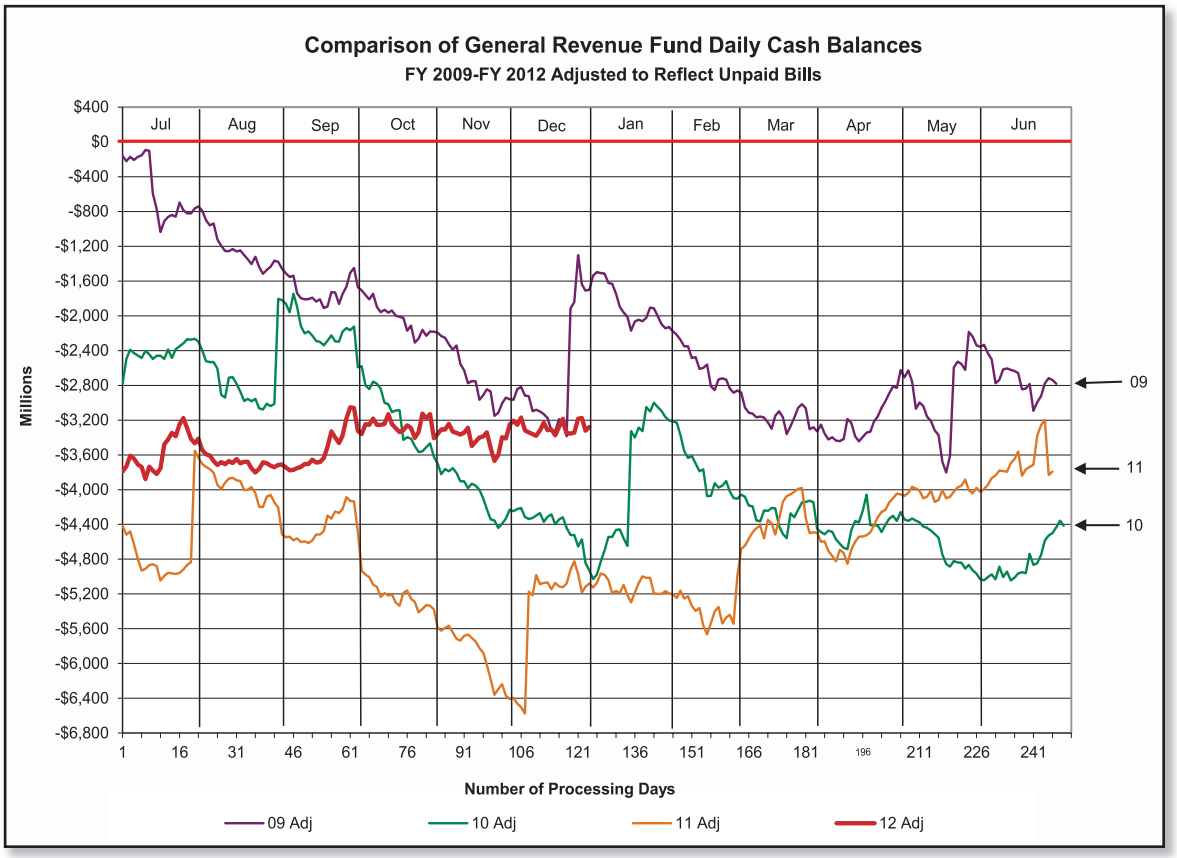
When those totals are combined with other obligations, including corporate tax refunds, employee health insurance and interfund borrowing repayments due to other state funds, the Comptroller estimates the backlog to be around $8.5 billion.

In addition, the level of unpaid General Funds bills is up several hundred million dollars since the end of last quarter, and has continually exceeded $3 billion over the last year. The cash flow situation is unlikely to improve in the near-term, as the state this year will make its pension payments with current revenues and not bonds, and Medicaid spending is projected to dramatically increase in the next six months.

It should be noted that all FY 2011 obligations have now been paid, six months after the end of the fiscal year. At the end of last fiscal year (June 2011) there was $3.798 billion in FY 2011 bills that were outstanding. The Comptroller's Office then had an additional $1.353 billion in FY 2011 vouchers presented for payment. As a result, more than $5.15 billion in FY 2012 revenues have been used to pay off the previous year's bills.

The chart of adjusted General Revenue Fund (GRF) balances shows the total on December 31, 2011 to be negative $3.281 billion. At the same time last year, the adjusted GRF balance was a negative $5.182 billion, although approximately $900 million of the December 2010 GRF backlog was pension vouchers that were later removed when the March 2011 pension bonds were issued.

Base revenues increased by 1.4 percent through the first half of the fiscal year as increases in income and sales taxes offset decreases in federal revenues and the transfer of tobacco bonds revenue. Base expenditures decreased 6.5 percent in the first half because revenue growth did not fully replace dollars from last year's one-time revenue sources, which included short-term borrowing, tobacco bonds and tax amnesty.



BASE REVENUES

The tax increases coupled with higher consumer spending, led to overall growth in state source revenues, which were offset by declines in "transfers in" and federal revenues. In all, General Funds total base revenue increased $211 million, or 1.4 percent. Specifically, individual income tax receipts grew $2.6 billion or 65.9 percent in the first half of FY 2012, while corporate income tax revenues increased by $180 million or 24.1 percent. Income tax growth would have appeared higher, as tax amnesty in the fall of 2010 generated $36 million in individual and $198 million in corporate income tax revenues and changed the timing of the receipt of those revenues.

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

SALES TAX: Sales tax revenues increased by $202 million, or 5.8 percent, from last year. That increase also would have appeared higher but for the 2010 tax amnesty, which accounted for $158 million in additional receipts last year.

TRANSFERS: "Transfers in" declined $1.136 billion, as last year the state received $1.25 billion from the Tobacco Settlement Recovery Fund after the sale of tobacco bonds in December.

Higher transfers from the Capital Projects Fund partially offset that decrease due to resolution of litigation protesting the 2009 liquor tax increase. Specifically, a $140 million transfer from the Protest Fund supported the $215 million transfer from the Capital Projects Fund to the GRF in July. Additionally, Lottery Fund transfers were up $3 million, and riverboat gambling transfers increased $19 million or 10.1 percent. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.

FEDERAL REVENUE: Federal revenues declined $1.636 billion, or 55.2 percent, so far this fiscal year. The decline is due to a decrease in the federal reimbursement rate for Medicaid payments and a slowdown in payments to providers.

OTHER RECEIPTS: All other state receipts are up $10 million, or 0.7 percent from last fiscal year. Specifically, public utility taxes decreased $37 million (due in part to a timing issue), and inheritance tax receipts dropped $31 million. All other sources increased due to the final payment of $73 million from the sale of the tenth riverboat license.

BASE EXPENDITURES

State spending increased $309 million in October and $42 million in November, but decreased $1.347 billion in December when compared to last year. The December decrease was caused by a lack of funding to address state liabilities. In total, General Funds base spending decreased by $1.057 billion, or 6.5 percent, through the second quarter of FY 2012.

SOCIAL SERVICES: The Department of Healthcare and Family Services (DHFS) again had the largest decrease in vouchers presented for payment among the major agencies, presenting $1.833 billion or 41.4 percent, less than a year ago. However, DHFS appropriations are up $539 million in FY 2012, so a higher rate of spending for the remainder of the year is expected as a large amount of bills is being held at the agency. The Department of Human Services was down $357 million or 16.2 percent through two quarters.

EDUCATION: State Board of Education vouchers increased $6 million, or 0.2 percent, through December. The agency's appropriations were down $269 million, so spending is likely to slow by the end of the year. The Teachers Retirement System (TRS) vouchers were up $22 million, while appropriations to TRS are up $2.205 billion. Higher Education's vouchers presented were up only $19 million, but appropriations are up $692 million. Both TRS' and Higher Education's spending are expected to significantly 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 payment requests for state employees' retirements were shifted fully from the agencies to the State Employees Retirement System, which has submitted vouchers on a monthly basis so far in FY 2012. Department of Aging's spending is up $139 million, while appropriations are up only $87 million.

TRANSFERS OUT: Transfers out for six months of FY 2012 decreased by $401 million, or 15.3 percent, when compared to last year. This excludes transfers of $36 million to repay interfund borrowing.

WHAT LIES AHEAD

The next six months will likely see a reversal of the trends seen in the first half of FY 2012. Since the income tax increase took effect last January, the growth in income tax collections experienced through the first half of the year will soon subside. Medicaid spending will likely increase, which will boost federal revenues, but those revenues are forecasted to still be down significantly for the fiscal year.

Base spending was down through two quarters, but will probably increase dramatically for the rest of the year. In addition to Medicaid spending returning to higher levels in the second half of the year, pension systems vouchers will surge at the end of the upcoming third quarter. Pension bonds were issued last year in March and the vouchers were removed from the spending, showing negative spending by those agencies from the General Funds. Since pension funding is from current revenues this fiscal year, pension spending will increase dramatically by the end of the third quarter.

Significant state payment backlogs remain. Even if current revenue projections hold, the backlog at IOC is not expected to change much from last year. At the same time, an additional $175 million in supplemental appropriations from the General Funds was recently passed, illustrating that spending decisions made by the Governor and General Assembly will impact the state's fiscal year end. Additionally, significant bills are currently held outside of the Comptroller's Office, and decision makers will continue to be faced with difficult budget decisions as payment delays and backlogs are likely to persist for the near future. ■

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Exhibit 1

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2010	2011		FY 2011	FY 2012	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 180	$ 203	$ 23	$ 130	$ 469	$ 339	260.8 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 691	$ 1,145	$ 454	$ 3,933	$ 6,524	$ 2,591	65.9 %
Corporate	211	354	143	748	928	180	24.1
Total, Income Taxes	902	1,499	597	4,681	7,452	2,771	59.2
Sales Taxes	629	635	6	3,453	3,655	202	5.8
Other Sources:							
Public Utility Taxes	110	78	(32)	540	503	(37)	(6.9)
Cigarette Taxes	30	30	0	177	177	0	0.0
Inheritance Tax (gross)	5	32	27	113	82	(31)	(27.4)
Liquor Gallonage Taxes	14	15	1	82	84	2	2.4
Insurance Tax and Fees	58	63	5	144	148	4	2.8
Corporation Franchise Tax and Fees	22	13	(9)	112	100	(12)	(10.7)
Investment Income	7	0	(7)	17	10	(7)	(41.2)
Cook County IGT	0	0	0	56	56	0	0.0
Other	32	40	8	185	276	91	49.2
Total, Other Sources	278	271	(7)	1,426	1,436	10	0.7
Total, Cash Receipts	$ 1,809	$ 2,405	$ 596	$ 9,560	$ 12,543	$ 2,983	31.2 %
Transfers In:							
Lottery Fund	$ 61	$ 61	$ 0	$ 297	$ 300	$ 3	1.0 %
State Gaming Fund	25	53	28	188	207	19	10.1
Other Funds	1,310	42	(1,268)	1,629	471	(1,158)	(71.1)
Total, Transfers In	$ 1,396	$ 156	$ (1,240)	$ 2,114	$ 978	$ (1,136)	(53.7) %
Total, State Sources	$ 3,205	$ 2,561	$ (644)	$ 11,674	$ 13,521	$ 1,847	15.8 %
Federal Sources	$ 712	$ 195	$ (517)	$ 2,965	$ 1,329	$ (1,636)	(55.2) %
Total, Base Revenues	**$ 3,917**	**$ 2,756**	**$ (1,161)**	**$ 14,639**	**$ 14,850**	**$ 211**	**1.4 %**
Short Term Borrowing	0	0	0	1,300	0	(1,300)	(100.0)
Interfund Borrowing	16	0	0	354	0	(354)	(100.0)
Transfer from Budget Stabilization Fund	235	0	(235)	235	275	40	17.0
Total, Revenues	$ 4,168	$ 2,756	$ (1,396)	$ 16,528	$ 15,125	$ (1,403)	(8.5) %
Expenditures:							
By Agency:							
Healthcare and Family Services	$ 691	$ 430	$ (261)	$ 4,428	$ 2,595	$ (1,833)	(41.4) %
State Board of Education	822	824	2	3,255	3,261	6	0.2
Human Services	382	317	(65)	2,197	1,840	(357)	(16.2)
Teachers Retirement	187	209	22	1,241	1,263	22	1.8
Higher Education	256	310	54	1,685	1,704	19	1.1
Corrections	103	97	(6)	618	623	5	0.8
Children and Family Services	75	90	15	492	492	0	0.0
Aging	60	79	19	321	460	139	43.3
State Police	22	28	6	131	142	11	8.4
All Other	204	213	9	1,218	1,477	259	21.3
Total	$ 2,802	$ 2,597	$ (205)	$ 15,586	$ 13,857	$ (1,729)	(11.1) %
Regular Transfers Out	675	448	(227)	2,614	2,213	(401)	(15.3)
Prior Year Adjustments	(1)	0	1	(5)	(78)	(73)	1,460.0
Vouchers Payable Adjustment	410	(264)	(674)	(1,999)	(853)	1,146	N/A
Total, Base Expenditures	**$ 3,886**	**$ 2,781**	**$ (1,105)**	**$ 16,196**	**$ 15,139**	**$ (1,057)**	**(6.5) %**
Transfers to Repay Budget Stabilization	276	0	(276)	276	275	(1)	(0.4)
Transfers to Repay Interfund Borrowing	0	34	34	0	36	36	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	4,162	2,815	(1,347)	16,472	15,450	(1,022)	(6.2)
AVAILABLE CASH BALANCE, ENDING	$ 186	$ 144	$ (42)	$ 186	$ 144	$ (42)	(22.6) %

Exhibit 1A

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2010	2011		FY 2011	FY 2012	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 25	$ 35	$ 10	$ 20	$ 7	$ (13)	(65.0) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 639	$ 1,061	$ 422	$ 3,630	$ 6,048	$ 2,418	66.6 %
Corporate	186	329	143	602	860	258	42.9
Total, Income Taxes	825	1,390	565	4,232	6,908	2,676	63.2
Sales Taxes	459	476	17	2,528	2,740	212	8.4
Other Sources:							
Public Utility Taxes	99	69	(30)	485	454	(31)	(6.4)
Cigarette Taxes	21	21	0	119	121	2	1.7
Inheritance Tax (gross)	5	32	27	113	82	(31)	(27.4)
Liquor Gallonage Taxes	14	15	1	82	84	2	2.4
Insurance Tax and Fees	58	63	5	144	148	4	2.8
Corporation Franchise Tax and Fees	22	13	(9)	112	100	(12)	(10.7)
Investment Income	7	0	(7)	16	9	(7)	(43.8)
Cook County IGT	0	0	0	56	56	0	0.0
Other	32	40	8	183	274	91	49.7
Total, Other Sources	258	253	(5)	1,310	1,328	18	1.4
Total, Cash Receipts	$ 1,542	$ 2,119	$ 577	$ 8,070	$ 10,976	$ 2,906	36.0 %
Transfers In	1,311	42	(1,269)	1,627	471	(1,156)	(71.1)
Total, State Sources	$ 2,853	$ 2,161	$ (692)	$ 9,697	$ 11,447	$ 1,750	18.0 %
Federal Sources	$ 712	$ 195	$ (517)	$ 2,965	$ 1,329	$ (1,636)	(55.2) %
Total, Base Revenues	**$ 3,565**	**$ 2,356**	**$ (1,209)**	**$ 12,662**	**$ 12,776**	**$ 114**	**0.9 %**
Short Term Borrowing	0	0	0	1,300	0	(1,300)	(100.0)
Interfund Borrowing	16	0	(16)	354	0	(354)	(100.0)
Transfer from Budget Stabilization Fund	235	0	(235)	235	275	40	17.0
Total, Revenues	$ 3,816	$ 2,356	$ (1,460)	$ 14,551	$ 13,051	$ (1,500)	(10.3) %
Expenditures:							
By Agency							
Healthcare and Family Services	$ 691	$ 430	$ (261)	$ 4,428	$ 2,595	$ (1,833)	(41.4) %
State Board of Education	407	402	(5)	1,177	1,146	(31)	(2.6)
Human Services	382	317	(65)	2,197	1,840	(357)	(16.2)
Higher Education	239	15	(224)	1,584	260	(1,324)	(83.6)
Corrections	103	97	(6)	618	623	5	0.8
Children and Family Services	75	90	15	492	492	0	0.0
Aging	60	79	19	321	460	139	43.3
State Police	22	28	6	130	142	12	9.2
All Other	204	227	23	1,228	1,496	268	21.8
Total	$ 2,183	$ 1,685	$ (498)	$ 12,175	$ 9,054	$ (3,121)	(25.6) %
Regular Transfers Out	733	841	108	2,985	3,625	640	21.4
Prior Year Adjustments	(1)	0	1	(6)	(72)	(66)	1,100.0
Vouchers Payable Adjustment	594	(188)	(782)	(915)	121	1,036	N/A
Total, Base Expenditures	**$ 3,509**	**$ 2,338**	**$ (1,171)**	**$ 14,239**	**$ 12,728**	**$ (1,511)**	**(10.6) %**
Transfers to Repay Budget Stabilization	276	0	(276)	276	275	(1)	(0.4)
Transfers to Repay Interfund Borrowing	0	34	34	0	36	36	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,785	2,372	(1,413)	14,515	13,039	(1,476)	(10.2)
AVAILABLE CASH BALANCE, ENDING	$ 56	$ 19	$ (37)	$ 56	$ 19	$ (37)	(66.1) %

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