

# Comptroller's Quarterly

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## CASH POSITION DETERIORATES AS STATE BEGINS TO REPAY SHORT-TERM BORROWING

Through the first three quarters of fiscal year 2010, the state's cash flow position continued to deteriorate with the backlog of General Revenue Fund bills reaching historic levels. At the end of March, the volume of unpaid bills from the General Funds in the Comptroller's Office stood at \$4.496 billion while at this time last year payables totaled \$3.401 billion. Just as significantly, the state has had to prioritize critical payments such as debt service and other obligations vital to the operating of state programs such as General State Aid to Education. The state has also had to accelerate large Medicaid disbursements in order to continue qualifying for increased federal stimulus funding revenues. As a result, the backlog includes unpaid transfers and vouchers from the first quarter of the fiscal year and those delays have become increasingly problematic.

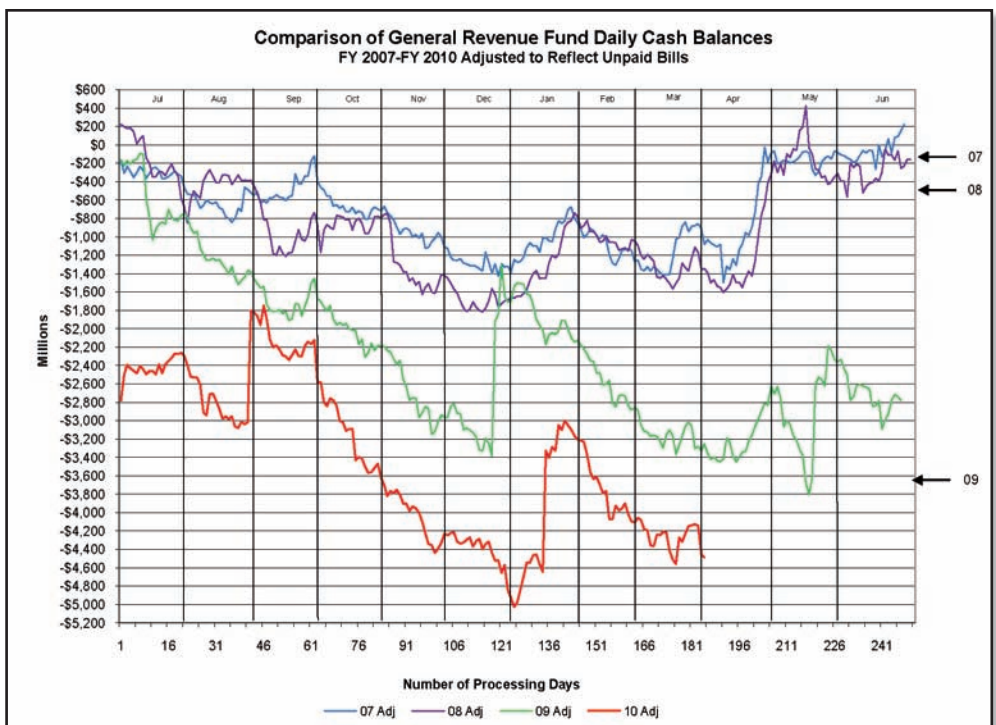
In March the state made the first payment of \$506 million towards \$2.25 billion in short-term borrowing loans that were issued to address fiscal year 2009 bills. The remaining \$1.75 billion plus interest must be repaid by June 10th of this year, further exacerbating cash flow issues for the remainder of the fiscal year.

In January the state issued \$3.5 billion in pension bonds which were used to pay the majority of the state's obligations to the retirement system in fiscal year 2010. Some of those revenues were available to repay the General Funds for retirement payments already made during the fiscal year but the results of the sale and the reduction in pension contributions prior to that sale impact-

ed both expenditure and revenue patterns for the year.

The chart of adjusted General Revenue Fund (GRF) balances shows the balance on March 31, 2010 to be a negative \$4.489 billion. Throughout the first nine months the adjusted balances have been consistently and significantly lower than previous years. Major factors in the decline of the cash flow position include continued weakness in the state's economy-driven revenues, a structural imbalance in the enacted fiscal year 2010 budget, and the state's inability to address the deficit in the fiscal year 2009 budget resulting in over \$3.9 billion in fiscal year 2010 revenues expended for last year's bills.

While base revenues increased 7.9% through three quarters of fiscal year 2010, it is the further declines in economy-driven revenue sources that continue to threaten the state's financial stability. Even though there is evidence of improving economic conditions, state corporate income tax receipts were down 11.4%, sales tax receipts decreased \$506 million or 9.8%, and individual income tax receipts fell \$536 million or 8.1%. Federal revenues tied to the American Recovery and Reinvestment Act of 2009 was essentially the only strong revenue source and transfers from the pension bonds led to the growth in revenues.



## Base Revenues

At the end of March, fiscal year 2010 base revenues had increased \$1.535 billion or 7.9% for a total of \$20.971 billion. State sources of revenue were down \$222 million or 1.4% while federal sources increased \$1.757 billion (53.7%) which includes \$1.459 billion from the federal stimulus program. At the end of March, income taxes had decreased \$648 million with individual income taxes down \$536 million (8.1%) while corporate income taxes declined \$112 million (11.4%) compared to last year.

With the recession continuing to impact economy-driven revenues, sales tax receipts decreased \$506 million or 9.8%.

Cash receipts from other sources decreased \$149 million or 6.3% due primarily to the expected declines in investment income (down \$37 million or 64.9%), inheritance tax receipts (down \$52 million or 23.7%), Cook County IGT (down \$9 million), insurance taxes (down \$12 million due to timing of deposit), and public utility taxes (down \$48 million or 5.5%). The only state sources of revenue to increase for the year so far were corporate franchise tax and fees (up \$7 million) and liquor taxes (up \$1 million).

For the first three quarters of the fiscal year, transfers from other state funds increased by \$1.081 billion. The major impact on transfers was the \$835 million transfer in January from the Pension Contribution Fund to the General Funds. This transfer was due to the issue of \$3.5 billion in Pension General Obligation bonds and was primarily a repayment for teacher retirement payments made during the fiscal year. State Gaming Fund transfers are down \$57 million while Lottery Fund transfers were the same as last year. All other transfers increased \$303 million primarily due to fiscal year 2010 fund sweeps legislation leading to transfers of \$220 million and \$61 million in legislated transfers from the Capital Projects Fund.

Federal sources of revenue increased \$1.757 billion or 53.7%, due to the federal stimulus legislation which has generated \$1.459 billion so far in fiscal year 2010.

## Base Expenditures

In prior years' quarterly reports, comparative analysis has been utilized between categories of spending such as awards and grants and operations. Major agencies or groups of agencies' spending were compared by category. However, due to the manner in which the budget was appropriated, that level of detail is incomparable to previous fiscal years and this report instead will present comparisons based on agency spending.

Through March, base General Funds spending increased by \$530 million or 2.5%. For the month of March base spending was up \$74 million.

Through nine months of fiscal year 2010, the Teachers Retirement System had the largest drop in vouchers presented for payment among the major agencies of \$276 million or 23.0% due to the sale of pension bonds. The Department of Healthcare and Family Services had the second largest drop with a decline of \$194 million or 3.2%. Human Services is down \$155 million or 4.7%, Higher Education declined \$131 million or 6.0%, Corrections was down \$95 million or 9.5%, State Board of Education is down \$89 million or 1.6% and Children and Family Services was down \$5 million or 0.7%.

Increased spending occurred for the State Police (up \$82 million or 64.6%) and the Department on Aging (up \$44 million or 10.4%). The increase to the State Police is due from a funding shift away from the Road Fund to GRF. Regular transfers out for the first nine months of fiscal year 2010 declined by \$347 million or 16.7%.

## What Lies Ahead

While federal sources accounted for most of the growth through three quarters of fiscal year 2010, this will be offset in the last quarter since federal ARRA monies in fiscal year 2009 totaled \$1.566 billion, all of which was received in the fourth quarter of last year. The creation of the Healthcare Provider Relief Fund will transfer both Medicaid spending and the resulting federal reimbursements to that fund. The result is that there will be a significant decline in federal

revenues to the General Revenue Fund in the fourth quarter of fiscal year 2010 compared to fiscal year 2009. From a cash management perspective, the new fund offers an opportunity for liquidity in GRF only if an anticipated \$400 million in delayed federal receipts is deposited into that fund along with the proceeds from an approved \$250 million one-year bond sale, and Medicaid ARRA spending is then shifted to that fund. Absent such events, the state's ability to impact the existing backlog of payables is almost negligible. However even if these actions are taken, the backlog of bills at the end of June will likely exceed \$5.5 billion, absent any other developments.

In the next three months, it is imperative that the state prioritize the remaining \$1.75 billion in short-term borrowing and make the first pension bond payment of \$52 million in addition to normal debt service demands. Therefore, with the decline in revenues (from federal sources) as well as increases in spending (repayment of short-term borrowing and pension debt) the state's cash flow position for the final quarter of fiscal year 2010 looks exceedingly difficult. Additional payment delays on the state's service providers and vendors as well as those elements of the public sector dependent on state subsidies including K-12 and higher education and local governments are a virtual certainty.

Previous quarterly reports have discussed the risks that the state's cash position places on providers and the public sector in general and those dangers have only intensified. A continued increase in the backlog of unpaid bills and the state's inability to pay those bills will lead to further erosion of the state service infrastructure. Eventually, many providers of essential state services may be unable to continue their operations at current levels and those vulnerable segments of the population to whom they provide services will suffer the consequences. The ability to operate state programs for children, seniors, and the disabled will become increasingly impaired. There appear to be limited options left for the remainder of this fiscal year to substantially mitigate these conditions and the outlook for fiscal year 2011 is even more ominous. ■

GENERAL FUNDS TRANSACTIONS  
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2009	2010		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 108	\$ 106	\$ (2)	\$ 141	\$ 280	\$ 139	98.6 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 721	\$ 728	\$ 7	\$ 6,607	\$ 6,071	\$ (536)	(8.1) %
Corporate	284	253	(31)	983	871	(112)	(11.4)
Total, Income Taxes	1,005	981	(24)	7,590	6,942	(648)	(8.5)
Sales Taxes	498	495	(3)	5,170	4,664	(506)	(9.8)
Other Sources:							
Public Utility Taxes	127	128	1	878	830	(48)	(5.5)
Cigarette Taxes	29	29	0	263	263	0	0.0
Inheritance Tax (gross)	29	23	(6)	219	167	(52)	(23.7)
Liquor Gallonage Taxes	10	10	0	119	120	1	0.8
Insurance Tax and Fees	60	30	(30)	216	204	(12)	(5.6)
Corporation Franchise Tax and Fees	16	19	3	150	157	7	4.7
Investment Income	8	3	(5)	57	20	(37)	(64.9)
Cook County IGT	0	0	0	159	150	(9)	(5.7)
Other	31	41	10	312	313	1	0.3
Total, Other Sources	310	283	(27)	2,373	2,224	(149)	(6.3)
Total, Cash Receipts	\$ 1,813	\$ 1,759	\$ (54)	\$ 15,133	\$ 13,830	\$ (1,303)	(8.6) %
Transfers In:							
Lottery Fund	\$ 63	\$ 63	\$ 0	\$ 440	\$ 440	\$ 0	0.0 %
State Gaming Fund	25	10	(15)	345	288	(57)	(16.5)
Other Funds	38	65	27	248	1,386	1,138	458.9
Total, Transfers In	\$ 126	\$ 138	\$ 12	\$ 1,033	\$ 2,114	\$ 1,081	104.6 %
Total, State Sources	\$ 1,939	\$ 1,897	\$ (42)	\$ 16,166	\$ 15,944	\$ (222)	(1.4) %
Federal Sources	\$ 418	\$ 935	\$ 517	\$ 3,270	\$ 5,027	\$ 1,757	53.7 %
<b>Total, Base Revenues</b>	<b>\$ 2,357</b>	<b>\$ 2,832</b>	<b>\$ 475</b>	<b>\$ 19,436</b>	<b>\$ 20,971</b>	<b>\$ 1,535</b>	<b>7.9 %</b>
Short Term Borrowing	0	0	0	1,400	1,250	(150)	(10.7)
Cash Flow Transfer	0	60	60	50	450	400	800.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,357	\$ 2,892	\$ 535	\$ 21,162	\$ 22,947	\$ 1,785	8.4 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 661	\$ 775	\$ 114	\$ 6,146	\$ 5,952	\$ (194)	(3.2) %
State Board of Education	846	864	18	5,465	5,376	(89)	(1.6)
Human Services	339	333	(6)	3,288	3,133	(155)	(4.7)
Teachers Retirement	133	10	(123)	1,202	926	(276)	(23.0)
Higher Education	188	194	6	2,179	2,048	(131)	(6.0)
Corrections	115	101	(14)	996	901	(95)	(9.5)
Children and Family Services	75	59	(16)	694	689	(5)	(0.7)
Aging	64	53	(11)	422	466	44	10.4
State Police	24	18	(6)	127	209	82	64.6
All Other	148	132	(16)	1,387	1,257	(130)	(9.4)
Total	\$ 2,593	\$ 2,539	\$ (54)	\$ 21,906	\$ 20,957	\$ (949)	(4.3) %
Regular Transfers Out	194	183	(11)	2,077	1,730	(347)	(16.7)
Prior Year Adjustments	(1)	(2)	(1)	(11)	(15)	(4)	36.4
Vouchers Payable Adjustment	(512)	(372)	140	(2,910)	(1,080)	1,830	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,274</b>	<b>\$ 2,348</b>	<b>\$ 74</b>	<b>\$ 21,062</b>	<b>\$ 21,592</b>	<b>\$ 530</b>	<b>2.5 %</b>
Cash Flow Transfer	0	0	0	50	665	615	1,230.0
Transfers to Repay Short-Term Borrowing	0	288	288	0	608	608	0.0
Total, Expenditures	2,274	2,636	362	21,112	22,865	1,753	8.3
AVAILABLE CASH BALANCE, ENDING	\$ 191	\$ 362	\$ 171	\$ 191	\$ 362	\$ 171	89.6 %

GENERAL REVENUE FUND TRANSACTIONS  
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2009	2010		FY 2009	FY 2010	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 38	\$ 5	\$ (33)	\$ 48	\$ 4	\$ (44)	(91.7) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 668	\$ 675	\$ 7	\$ 6,125	\$ 5,628	\$ (497)	(8.1) %
Corporate	263	234	(29)	911	807	(104)	(11.4)
Total, Income Taxes	931	909	(22)	7,036	6,435	(601)	(8.5)
Sales Taxes	374	371	(3)	3,870	3,485	(385)	(9.9)
Other Sources:							
Public Utility Taxes	116	117	1	792	749	(43)	(5.4)
Cigarette Taxes	15	19	4	134	161	27	20.1
Inheritance Tax (gross)	29	23	(6)	219	167	(52)	(23.7)
Liquor Gallonage Taxes	10	10	0	119	120	1	0.8
Insurance Tax and Fees	60	30	(30)	216	204	(12)	(5.6)
Corporation Franchise Tax and Fees	16	19	3	150	157	7	4.7
Investment Income	8	3	(5)	57	20	(37)	(64.9)
Cook County IGT	0	0	0	159	150	(9)	(5.7)
Other	31	41	10	309	311	2	0.6
Total, Other Sources	285	262	(23)	2,155	2,039	(116)	(5.4)
Total, Cash Receipts	\$ 1,590	\$ 1,542	\$ (48)	\$ 13,061	\$ 11,959	\$ (1,102)	(8.4) %
Transfers In	38	65	27	248	550	302	121.8
Total, State Sources	\$ 1,628	\$ 1,607	\$ (21)	\$ 13,309	\$ 12,509	\$ (800)	(6.0) %
Federal Sources	\$ 418	\$ 935	\$ 517	\$ 3,270	\$ 5,027	\$ 1,757	53.7 %
<b>Total, Base Revenues</b>	<b>\$ 2,046</b>	<b>\$ 2,542</b>	<b>\$ 496</b>	<b>\$ 16,579</b>	<b>\$ 17,536</b>	<b>\$ 957</b>	<b>5.8 %</b>
Short Term Borrowing	0	0	0	1,400	1,250	(150)	(10.7)
Cash Flow Transfer	0	60	60	50	450	400	800.0
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,046	\$ 2,602	\$ 556	\$ 18,305	\$ 19,512	\$ 1,207	6.6 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 661	\$ 775	114	6,146	5,952	(194)	(3.2)
State Board of Education	425	838	413	1,956	2,876	920	47.0
Human Services	339	333	(6)	3,288	3,133	(155)	(4.7)
Higher Education	85	194	109	1,726	1,896	170	9.8
Corrections	115	101	(14)	996	901	(95)	(9.5)
Children and Family Services	75	59	(16)	694	689	(5)	(0.7)
Aging	64	53	(11)	422	466	44	10.4
State Police	24	18	(6)	127	209	82	64.6
All Other	149	132	(17)	1,395	1,262	(133)	(9.5)
Total	\$ 1,937	\$ 2,503	\$ 566	\$ 16,750	\$ 17,384	\$ 634	3.8 %
Regular Transfers Out	552	183	(369)	4,355	1,947	(2,408)	(55.3)
Prior Year Adjustments	(1)	(2)	(1)	(11)	(15)	(4)	36.4
Vouchers Payable Adjustment	(462)	(372)	90	(2,849)	(1,080)	1,769	N/A
<b>Total, Base Expenditures</b>	<b>\$ 2,026</b>	<b>\$ 2,312</b>	<b>\$ 286</b>	<b>\$ 18,245</b>	<b>\$ 18,236</b>	<b>\$ (9)</b>	<b>(0.0) %</b>
Cash Flow Transfer	0	0	0	50	665	615	1,230.0
Transfers to Repay Short-Term Borrowing	0	288	288	0	608	608	0.0
Total, Expenditures	2,026	2,600	574	18,295	19,509	1,214	6.6
AVAILABLE CASH BALANCE, ENDING	\$ 58	\$ 7	\$ (51)	\$ 58	\$ 7	\$ (51)	(87.9) %