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March 12, 2018

MEMORANDUM

TO: The Honorable Bruce Rauner, Governor, State of Illinois
The Honorable John Cullerton, President of the Senate
The Honorable Michael Madigan, Speaker of the House of Representatives
The Honorable Jim Durkin, Minority Leader of the House of Representatives
The Honorable Bill Brady, Minority Leader of the Senate

FROM: Clayton Klenke, Executive Director

RE: FY 2019 GAAP (Generally Accepted Accounting Principles) Report

Introduction

Included in this memorandum are the Commission on Government Forecasting and Accountability's revenue estimates formulated on a modified accrual basis in accordance with generally accepted accounting principles (GAAP). Public Act 90-0479, a synopsis of which is included in the Appendix, requires modified accrual basis estimates for the general funds, the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund.

Recognition of revenue and liability in the fiscal year of collection or payment has been the premise for formulating the Illinois budget and is known as cash basis budgeting. Estimates formulated on a modified accrual basis instead recognize revenue and liability in the fiscal year of accrual and provide an alternative perspective to the budget process.

Modified Accrual Basis Estimates

The Commission on Government Forecasting and Accountability estimates that FY 2019 revenue to the general funds on a modified accrual basis will be \$178.6 million lower than the cash basis estimate. The differential between the two estimates is

because lapse period collections in FY 2019 are expected to be lower than FY 2018 lapse period collections. This is mainly because of higher levels of anticipated lapse spending from federal sources in FY 2018 as compared to FY 2019.

The Commission estimates that there will be a very small difference between modified accrual basis revenue to the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund in FY 2019.

The following table summarizes the Commission’s estimates, while tables at the back of this document provide more detail of the analysis.

FY 2019 REVENUE ESTIMATES			
Summary Table			
(\$ in Millions)			
Estimated Revenue by Fund	CGFA Cash Basis vs. Modified Accrual Basis		
	CGFA Base FY 2019 Cash Basis	CGFA Base FY 2019 Modified Accrual Basis	Difference
General Funds	\$37,265.0	\$37,288.0	\$23.0
Agricultural Premium Fund	\$25.8	\$29.6	\$3.8
Road Fund	\$2,819.8	\$2,823.7	\$3.9
Motor Fuel Tax Fund	\$1,278.4	\$1,278.6	\$0.2

The Governor’s Office of Management and Budget included their cash basis and modified accrual revenue estimates in the FY 2019 Budget Book. The GOMB’s FY 2019 cash basis revenue estimate (Governor’s Introduced Budget) is \$37,364 million (not including the GOMB’s projection of \$600 million in interfund borrowing). This estimate is \$99 million higher than the Commission’s comparable cash basis estimate of \$37,265 million.

The GOMB’s FY 2019 General Funds estimate on a modified accrual basis is \$37,390 million (not including the \$600 million in interfund borrowing and not including the beginning fund balance of \$1,368). This estimate is \$102 million higher than the Commission’s comparable modified accrual basis estimate of \$37,288 million.

Methodology for Modified Accrual Basis Revenue Estimates

In general, the Commission on Government Forecasting and Accountability's modified accrual revenue estimates were formulated as follows:

- 1) obtained historical amounts of revenue accrued in a given fiscal but received during July and August of the following fiscal year, or later during the following fiscal year in the case of federal reimbursements associated with Section 25 of the State Finance Act;
- 2) used historical data to calculate the percentage of a fiscal year's cash basis receipts attributable to the previous fiscal year;
- 3) used data described above and additional insight from relevant agencies to formulate estimates of accrued revenue to be received after the close of fiscal years 2018 and 2019;
- 4) used these estimates of accrued revenue received after the close of fiscal years 2018 and 2019 to convert fiscal year 2019 cash basis revenue estimates to modified accrual basis estimates by subtracting fiscal year 2019 cash receipts attributable to fiscal year 2018 and adding fiscal year 2020 cash receipts attributable to fiscal year 2019.

It should also be noted that:

- 1) for federal revenues to the general funds, the Governor's Office of Management and Budget estimates were used given GOMB's role in coordinating federal receipts and the estimates' similarity to such receipts in previous fiscal years;
- 2) in accordance with Public Act 90-0479, the Commission also formulated fund balance estimates – however, GOMB's estimated fiscal year 2018 beginning cash basis fund balances were utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund;
- 3) the Governor's Office of Management and Budget's estimates of expenditures were utilized for fund balance calculations given the Commission does not routinely estimate expenditures.

Background

Each year, the Comptroller's office produces the *Comprehensive Annual Financial Report* (CAFR). The CAFR is the State's official annual report, which provides the readers with the financial position of the State as of June 30 each year, and results of operations during the fiscal year. The report is intended to provide the State's taxpayers, managers, investors, creditors, lawmakers, and other users with information in accordance with GAAP. The State of Illinois' daily activities are operated on a "cash basis," where bills are paid with the available balances of cash on hand.

Cash basis budgets are based on estimates of the cash balance available at the beginning of the fiscal year, the amount of revenue actually received during July through June of the fiscal year, the amount of expenditures actually made during July through June of

the fiscal year, and the ending cash balance. Budgeting on a modified accrual basis instead recognizes revenues and expenditures as they accrue.

Funds

Below is a brief description of the funds for which modified accrual estimation is required.

- General Funds - The general funds support operations and programs of numerous State agencies with revenues from various sources, the largest of which include income taxes, sales taxes, and federal sources.
- Agricultural Premium Fund - The Agricultural Premium Fund has been used to meet numerous expenses including those of the Racing Board, the State Fairs, and the Department of Agriculture. Revenues to this fund include a portion of the horse racing privilege tax, transfers from the General Revenue Fund (GRF), and other miscellaneous sources such as proceeds from the sale of advertising at the DuQuoin State Fair and fees paid to the State Police for racetrack investigative services.
- Road Fund - Uses of the Road Fund have included retiring principal and interest on highway construction bonds issued by the State, administering certain chapters of the vehicle code, meeting administrative expenses of the Illinois Department of Transportation, construction of highways and bridges, and patrolling and policing highways. Examples of Road Fund revenue sources are motor vehicle and operator license fees and transfers from the Motor Fuel Tax Fund.
- Motor Fuel Tax Fund - The Motor Fuel Tax Fund is a holding fund for all revenue to the State from the motor fuel tax. Revenue is used for such purposes as deposits to the State Boating Act Fund, deposits to the Grade Crossing Protection Program, and for State and local road programs, including a deposit to the Road Fund.

FY 2019 GAAP REPORT

Supplementary Notes March, 2018

Cash Basis Revenue Estimate vs. Modified Accrual Basis Revenue Estimate

- It is estimated that there will be a relatively small difference between FY 2019 revenue measured on a cash basis and FY 2019 revenue measured on a modified accrual basis. The modified accrual basis general funds estimate is \$23.0 million higher than the cash basis estimate.
- The differential between the two estimates is largely because lapse period collections in FY 2019 are expected to be slightly higher than FY 2018 lapse period collections.
- Fund balance estimates were made utilizing both cash basis and modified accrual basis revenue and expenditure estimates.
- The cash basis fund balance calculation starts with an actual FY 2018 beginning cash balance of \$1,368 million, per the financial summary table published in the FY 2019 Budget Book. The FY 2019 beginning cash balance is calculated by adding the Commission’s FY 2018 estimated cash basis revenues to the FY 2018 beginning cash balance and by subtracting GOMB’s FY 2018 cash basis spending estimate.

Description	Amount	Source
FY18 Beginning Cash Balance:	\$1,368 million	FY19 Budget Book
FY18 CGFA Est. Base Cash Revenue:	\$37,504 million	CGFA
FY18 Est. Cash Spending:	(\$37,373 million)	FY19 Budget Book
FY18 Ending/FY19 Beginning Cash Balance:	\$1,499 million	Calculation

The “modified accrual basis” fund balance calculation starts by adjusting the estimated FY 2019 beginning balance for outstanding revenues and liabilities not accounted for in the cash basis beginning balance.

Description	Amount	Source
FY18 Ending/FY19 Beginning Cash Balance:	\$1,499 million	Calculation
FY19 Cash Receipts Attributable to FY18:	\$1,733 million	CGFA
FY18 Lapse Period/Section 25 Spending:	(\$9,503 million)	FY19 Budget Book
FY18 End/FY19 Begin. Modified Accrual Bal.:	(\$6,271 million)	Calculation

The estimated FY 2019 modified accrual basis ending balance is calculated by adding estimates of FY 2019 modified accrual basis revenue and subtracting GOMB estimated

FY 2019 expenditures, adjusted to a modified accrual basis by subtracting estimates of prior year lapse period and Section 25 spending and adding estimates of current year lapse period and Section 25 spending.

Description	Amount	Source
FY19 Est. Beginning Modified Accrual Balance:	(\$6,271 million)	Calculation
FY19 Estimated Modified Accrual Revenue:	\$37,288 million	CGFA
FY19 Estimated Modified Accrual Expenditures:	(\$37,246 million)	FY19 Budget Book
FY19 Est. Ending Modified Accrual Balance:	(\$6,229 million)	Calculation

The estimated FY 2019 modified accrual basis ending balance results in a deficit of over \$6.2 billion.

CGFA FY 2019 REVENUE ESTIMATE - ANALYSIS OF CASH BASIS VS. MODIFIED ACCRUAL BASIS

(General Funds - \$'s in Millions)

March 2018

	FY 2019 Cash Basis Collections	FY 2018 Lapse Period Collections	FY 2019 Lapse Period Collections	FY 2019 GAAP Basis
Estimated General Funds Revenue				
State Taxes				
Individual Income Tax	\$21,071.0	\$317.4	\$325.5	\$21,079.2
Corporate Income Tax	\$2,618.0	\$56.1	\$58.8	\$2,620.7
Sales Taxes	\$8,491.0	\$438.3	\$448.2	\$8,500.9
Public Utility Taxes	\$878.0	\$7.3	\$7.1	\$877.8
Cigarette Tax	\$353.0	\$0.0	\$0.0	\$353.0
Liquor Gallonage Taxes	\$174.0	\$37.1	\$37.6	\$174.4
Vehicle Use Tax	\$29.0	\$0.0	\$0.0	\$29.0
Inheritance Tax	\$290.0	\$0.0	\$0.0	\$290.0
Insurance Taxes & Fees	\$405.0	\$0.0	\$0.0	\$405.0
Corporate Franchise Tax & Fees	\$205.0	\$0.0	\$0.0	\$205.0
Interest on State Funds & Investments	\$100.0	\$0.0	\$0.0	\$100.0
Cook County Intergovernmental Transfer	\$244.0	\$0.0	\$0.0	\$244.0
Other Sources	\$975.0	\$7.6	\$10.5	\$977.9
Subtotal	\$35,833.0	\$863.8	\$887.6	\$35,856.8
Transfers				
Lottery	\$733.0	\$0.0	\$0.0	\$733.0
Gaming Fund Transfer	\$266.0	\$0.0	\$0.0	\$266.0
Proceeds from sale of 10th License	\$10.0	\$0.0	\$0.0	\$10.0
Other	\$751.0	\$0.0	\$0.0	\$751.0
Total State Sources	\$37,593.0	\$863.8	\$887.6	\$37,616.8
Total Federal Sources	\$3,754.0	\$952.4	\$952.4	\$3,754.0
Total Federal & State Sources	\$41,347.0	\$1,816.2	\$1,840.0	\$41,370.8
Refund Fund				
Personal Income Tax	(\$2,044.0)	(\$31.1)	(\$31.6)	(\$2,044.5)
Corporate Income Tax	(\$406.0)	(\$9.8)	(\$9.1)	(\$405.3)
Other Nongeneral Fund Distributions				
Personal Income Tax to LGDF	(\$1,038.0)	(\$15.6)	(\$16.0)	(\$1,038.4)
Corporate Income Tax to LGDF	(\$137.0)	(\$2.9)	(\$3.1)	(\$137.2)
Sales Tax Distributions to PTF and DPTF	(\$457.0)	(\$23.7)	(\$24.1)	(\$457.4)
Base General Funds Revenue	\$37,265.0	\$1,733.1	\$1,756.1	\$37,288.0
Regular and Section 25 Expenditures	(\$37,613.0)	(\$9,503.0)	(\$9,136.0)	(\$37,246.0)
FY 2019 Estimated General Funds Balance	Beginning Balance	Revenue	Expenditures	Ending Balance
Cash Basis	\$1,499.0	\$37,265.0	(\$37,613.0)	\$1,151.0
FY 2019 Cash Receipts Attributable to FY 2018	\$1,733.1			
FY 2018 Lapse Period / Section 25 Spending	(\$9,503.0)			
Modified Accrual Basis	(\$6,270.9)	\$37,288.0	(\$37,246.0)	(\$6,228.9)

NOTES:

FY 2018 estimated beginning modified accrual balance was derived by subtracting the Governor's Office of Management and Budget's (GOMB) FY 2018 lapse period and other Section 25 spending estimate from the estimated beginning FY 2019 cash balance and adding the estimated FY 2019 cash receipts attributed to FY 2018.

Fund balances are calculated using the Governor's Office of Management and Budget spending estimates as the Commission on Government Forecasting and Accountability does not formulate estimates of expenditures.

The GOMB's spending estimates were converted to modified accrual basis by subtracting prior year lapse period and other estimated Section 25 spending and adding current year lapse period and other Section 25 spending. Excluded from the revenue and spending estimates are various revenue/expenditure changes proposed by the Governor. Budget Stabilization Fund transfers are also not included.

FY 2019 REVENUE ESTIMATES - ANALYSIS OF CASH BASIS VS. MODIFIED ACCRUAL BASIS
Agricultural Premium Fund, Road Fund, & Motor Fuel Tax Fund
 \$'s in Millions

Agricultural Premium Fund

	FY 2019	FY 2019 Cash Receipts	FY 2018	FY 2018 Cash Receipts	FY 2019 - \$'s	FY 2019 - \$'s	FY 2019
	Cash Basis	\$'s	% of FY 2018 Cash Receipts	+	Attributable to FY 2019 - \$'s	=	Modified Accrual Basis
Estimated Revenue	\$25.8	\$0.3	16.0%		\$4.1	=	\$29.6
Estimated Fund Balance	FY 2019 Beginning Balance	Revenue			Expenditures		FY 2019 Ending Balance
Cash Basis	\$1.3	\$25.8	-		\$23.8	=	\$3.3
Modified Accrual Basis	\$1.3	\$29.6	-		\$23.8	=	\$7.2

Road Fund

	FY 2019	FY 2019 Cash Receipts	FY 2018	FY 2018 Cash Receipts	FY 2019 - \$'s	FY 2019 - \$'s	FY 2019
	Cash Basis	\$'s	% of FY 2018 Cash Receipts	+	Attributable to FY 2019 - \$'s	=	Modified Accrual Basis
Estimated Revenue	\$2,819.8	\$452.4	16.2%		\$456.2	=	\$2,823.7
Estimated Fund Balance	FY 2019 Beginning Balance	Revenue			Expenditures		FY 2019 Ending Balance
Cash Basis	\$843.9	\$2,819.8	+		\$3,071.1	=	\$592.6
Modified Accrual Basis	\$843.9	\$2,823.7	+		\$3,071.1	=	\$596.5

Motor Fuel Tax Fund

	FY 2019	FY 2019 Cash Receipts	FY 2018	FY 2018 Cash Receipts	FY 2019 - \$'s	FY 2019 - \$'s	FY 2019
	Cash Basis	\$'s	% of FY 2018 Cash Receipts	+	Attributable to FY 2019 - \$'s	=	Modified Accrual Basis
Estimated Revenue	\$1,278.4	\$211.0	16.5%		\$211.3	=	\$1,278.6
Estimated Fund Balance	FY 2019 Beginning Balance	Revenue			Expenditures		FY 2019 Ending Balance
Cash Basis	\$104.2	\$1,278.4	+		\$1,290.1	=	\$92.5
Modified Accrual Basis	\$104.2	\$1,278.6	+		\$1,290.1	=	\$92.7

NOTES:

- * The Governor's Office of Management and Budget (GOMB) estimated FY 2018 beginning cash balances are utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund.
- * FY 2019 estimated beginning modified accrual balances were assumed to equal FY 2019 estimated beginning cash balances.
- * Fund balance calculations utilize the GOMB's spending estimates as the CGFA does not formulate estimates of expenditures.
- * Estimates of modified accrual basis spending equal the GOMB's estimates of cash basis spending as FY 2018 and FY 2019 lapse period spending are assumed to be equal.

APPENDIX

Synopsis of Public Act 90-0479 (15 ILCS 20/50-5), Pertaining to Budget Formulation

Public Act 90-0479 (15 ILCS 20/50-5), effective August of 1997, requires that the State budget, both underlying revenue and spending estimates, for the following funds be formulated on a modified accrual basis in concert with generally accepted accounting principles (GAAP):

- 1) General Funds;
- 2) Agricultural Premium Fund;
- 3) Road Fund;
- 4) Motor Fuel Tax Fund.

Revenue estimates for a fiscal year are to include:

- 1) the estimated beginning fund balance;
- 2) plus the revenues estimated to be received from July through June of the fiscal year;
- 3) plus receipts due to the state as of June 30 but expected to be collected during the lapse period;
- 4) minus the receipts collected during the first two months of the fiscal year that are attributable to the previous fiscal year;
- 5) plus federal reimbursements associated with State expenditures made in accordance with Section 25 of the State Finance Act.

Spending estimates for a fiscal year are to include:

- 1) expenditures estimated to be made from July through June of the fiscal year;
- 2) plus expenditures estimated to be incurred in the fiscal year but paid in the following fiscal year;
- 3) minus costs paid in the fiscal year which were incurred in the previous fiscal year.

Both revenue and expenditure estimates for a fiscal year are to include all transfers between funds that are based on revenues received or costs incurred during the fiscal year.

The Commission on Government Forecasting and Accountability is to prepare revenue and fund transfer estimates in accordance with Public Act 90-0479 each year. These estimates are to be reported to the General Assembly and the Governor.

For other funds not specified in Public Act 90-0479, proposed expenditures and appropriations are not to exceed estimated available funds for the budgeted fiscal year.