

March 15, 2002

MEMORANDUM

TO: The Honorable George Ryan, Governor, State of Illinois
The Honorable James "Pate" Philip, President of the Senate
The Honorable Michael Madigan, Speaker of the House of Representatives
The Honorable Lee Daniels, Minority Leader of the House of Representatives
The Honorable Emil Jones, Jr., Minority Leader of the Senate

FROM: Dan R. Long, Executive Director

RE: FY 2003 GAAP Report (Generally Accepted Accounting Principles)

Introduction

Included in this memorandum are the Illinois Economic and Fiscal Commission'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. The Bureau of the Budget included their modified accrual revenue and expenditure estimates in the fiscal year 2003 budget book.

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 Economic and Fiscal Commission estimates that fiscal year 2003 revenue to the general funds on a modified accrual basis will be \$10.1 million higher than on a cash basis. The small differential between the two estimates is largely due to increases in the income taxes and the sales tax being offset by losses in the inheritance tax and the federal source forecasts. The

Commission estimates that there will be no difference between modified accrual basis revenue to the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund in fiscal year 2003. The following table summarizes the Commission's estimates, while tables at the back of this document provide more detail of the analysis.

FY 2003 REVENUE ESTIMATES			
Summary Table (\$ in Millions)			
Estimated Revenue by Fund	IEFC Cash Basis vs. Modified Accrual Basis		
	IEFC FY 2003 Cash Basis	IEFC FY 2003 Modified Accrual Basis	Difference
General Funds	\$24,629.0	\$24,639.1	\$10.1
Agricultural Premium Fund	\$25.3	\$25.3	\$0.0
Road Fund	\$2,068.1	\$2,068.1	\$0.0
Motor Fuel Tax Fund	\$1,300.3	\$1,300.3	\$0.0

In the fiscal year 2003 Budget Book, the Bureau of the Budget noted a slight difference in their fiscal year 2003 cash basis and modified accrual basis revenue estimates. They estimate that fiscal year 2003 revenue to the general funds on a modified accrual basis will be \$15 million higher than on a cash basis. For general funds, the Bureau's fiscal year 2003 modified accrual basis revenue estimate is \$24,880 million, \$241 million above the Commission's fiscal year 2003 modified accrual basis estimate of \$24,639 million and \$251 million higher than the Commission's cash basis estimate of \$24,629 million.

Methodology for Modified Accrual Basis Revenue Estimates

In general, the Economic and Fiscal Commission'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 2002 and 2003;
- 4) used these estimates of accrued revenue received after the close of fiscal years 2002 and 2003 to convert fiscal year 2003 cash basis revenue estimates to modified accrual basis estimates by subtracting fiscal year 2003 cash receipts attributable to fiscal year 2002 and adding fiscal year 2004 cash receipts attributable to fiscal year 2003.

It should also be noted that:

- 1) for federal revenues to the general funds, the Bureau of the Budget's estimates of cash receipts attributable to prior fiscal years were used given the Bureau'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, the Bureau of the Budget's estimated fiscal year 2003 beginning cash basis fund balances were utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund;
- 3) the Bureau of the Budget's estimates of expenditures were utilized for fund balance calculations given the Commission does not routinely estimate expenditures.

Background

The Comptroller's office produces the Comprehensive Annual Financial Report (CAFR) at the end of each fiscal year. The CAFR is the official annual report of the State's financial position as of June 30 each year. This report is prepared on a modified accrual basis in accordance with GAAP. However, the Governor and the General Assembly construct each fiscal year's budget on a cash basis.

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.

When the Governor presented his budget in February, he presented it on a cash basis as usual, but also budgeted for the funds included in Public Act 90-0479 on a modified accrual basis.

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 and also receives general funds sales tax revenue. 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 2003 GAAP REPORT

Supplementary Notes March, 2002

Cash Basis Revenue Estimate vs. Modified Accrual Basis Revenue Estimate

- It is estimated that there will be a relatively small difference between fiscal year 2003 revenue measured on a cash basis and fiscal year 2003 revenue measured on a modified accrual basis. The modified accrual basis general funds estimate is \$10.1 million higher than the cash basis estimate. The small differential between the two estimates is largely due to increases in the income taxes and the sales tax being offset by losses in the inheritance tax and the federal source forecasts.
- 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 estimated fiscal year 2003 beginning cash balance of \$496 million, calculated by adding IEFB's fiscal year 2002 estimated cash basis revenues to the fiscal year 2002 beginning cash balance and by subtracting BoB's fiscal year 2002 cash basis spending estimate.

FY 2002 Beginning Cash Balance:	\$1,126.0 million
FY 2002 IEFB Estimate Cash Revenue:	\$24,196.0 million
FY 2002 Estimate Cash Spending:	(\$24,826.0 million)
FY 2002 Ending/FY 2003 Beginning Cash Balance:	\$496.0 million

- The "modified accrual basis" fund balance calculation starts by adjusting the estimated fiscal year 2003 beginning balance for outstanding revenues and liabilities not accounted for in the cash basis beginning balance.

FY 2002 Ending/FY 2003 Beginning Cash Balance:	\$496.0 million
FY 2003 Cash Receipts Attributable to FY 2002:	\$1,308.5 million
FY 2002 Lapse Period/Section 25 Spending:	(\$1,981.0 million)
FY 2002 Ending/FY 2003 Beginning Modified Accrual Balance:	(\$176.5 million)

The estimated fiscal year 2003 modified accrual basis ending balance is calculated by adding estimates of fiscal year 2003 modified accrual basis revenue and subtracting BoB estimated fiscal year 2003 expenditures, adjusted to a modified accrual basis by subtracting BoB's estimates of prior year lapse period and Section 25 spending and adding BoB's estimates of current year lapse period and Section 25 spending.

FY 2003 Estimated Beginning Modified Accrual Balance:	(\$176.5 million)
FY 2003 Estimated Modified Accrual Revenue:	\$24,639.1 million
FY 2003 Estimated Modified Accrual Expenditures:	(\$24,722.0 million)
FY 2003 Estimated Ending Modified Accrual Balance:	(\$259.4 million)

- The estimated fiscal year 2003 modified accrual basis ending balance results in a deficit of \$259.4 million. This figure is \$719.4 million lower than the estimated cash basis ending balance, primarily because of Section 25 liabilities. BoB estimates fiscal year 2003 Section 25 liabilities to be \$1.188 billion. These liabilities will not be paid until after the close of fiscal year 2003 and are therefore subtracted from the ending cash balance in the process of calculating a modified accrual ending balance. Of the \$1.188 billion estimated Section 25 liability, \$920 million is attributable to Medicaid, while \$245 million is attributable to Group Insurance. While there will be federal reimbursements associated with these Medicaid liabilities paid after the close of the fiscal year, the reimbursement rate will be approximately 50% of \$920 million expenditures. Therefore, in applying outstanding revenues and liabilities to the ending cash balance, Medicaid liabilities are weighted heavier than their associated revenue stream and pull down the modified accrual balance in relation to the cash balance.

Regarding ending balance estimates, it should also be noted that the modified accrual basis revenue estimate upon which the Governor's proposed fiscal year 2003 general funds budget is based is \$241 million higher than IEF's modified accrual basis estimate.

IEFC FY 2003 REVENUE ESTIMATE – ANALYSIS OF CASH BASIS vs. MODIFIED ACCRUAL BASIS

(General Funds - \$'s in Millions)

March 2002

<u>Estimated General Funds Revenue</u>	<u>FY 2002 Estimate Lapse Period Collections</u>	<u>FY 2002 Lapse Period % of FY 2003 Cash Basis</u>	<u>FY 2003 Estimate Cash Basis Collections</u>	<u>FY 2003 Estimate Lapse Period Collections</u>	<u>FY 2003 Estimate Modified Accrual Basis</u>
STATE TAXES:					
Individual Income Tax	\$225.8	2.5%	\$9,080.0	\$236.9	\$9,091.1
Corporate Income Tax	\$77.3	6.2%	\$1,244.0	\$83.5	\$1,250.2
Sales Taxes	\$354.7	5.5%	\$6,490.0	\$371.9	\$6,507.3
Public Utility Taxes	\$15.6	1.3%	\$1,200.0	\$16.1	\$1,200.5
Cigarette Tax	\$26.0	6.5%	\$400.0	\$26.0	\$400.0
Liquor Gallonage Taxes	\$11.3	9.0%	\$125.0	\$11.3	\$125.0
Vehicle Use Tax	\$2.1	6.1%	\$35.0	\$2.1	\$35.0
Inheritance Tax	\$40.0	14.0%	\$286.0	\$31.7	\$277.7
Insurance Taxes & Fees	\$10.0	3.7%	\$270.0	\$10.0	\$270.0
Corporate Franchise Tax & Fees	\$13.0	7.4%	\$176.0	\$13.0	\$176.0
Interest on State Funds & Investments	\$18.0	8.8%	\$205.0	\$20.5	\$207.5
Cook County Intergovernmental Transfer	\$0.0	0.0%	\$345.0	\$0.0	\$345.0
Other Sources	\$7.4	2.2%	\$330.0	\$5.0	\$327.6
Subtotal	\$801.1	4.0%	\$20,186.0	\$828.0	\$20,212.9
TRANSFERS:					
Lottery	\$7.1	1.3%	\$560.0	\$7.9	\$560.8
Gaming Fund Transfer	\$57.4	11.7%	\$490.0	\$57.4	\$490.0
Other	\$6.8	1.5%	\$445.0	\$6.8	\$445.0
Total State Sources	\$872.5	4.0%	\$21,681.0	\$900.1	\$21,708.6
Total Federal Sources	\$475.0	11.8%	\$4,010.0	\$460.0	\$3,995.0
Total Federal & State Sources	\$1,347.5	5.2%	\$25,691.0	\$1,360.1	\$25,703.6
REFUND FUND:					
Personal Income Tax	(\$18.1)	2.5%	(\$726.0)	(\$18.9)	(\$726.9)
Corporate Income Tax	(\$20.9)	6.2%	(\$336.0)	(\$22.5)	(\$337.7)
Total General Funds Revenue	\$1,308.5	5.3%	\$24,629.0	\$1,318.6	\$24,639.1
<i>Regular and Section 25 Expenditures</i>	<i>(\$1,981.0)</i>	<i>8.0%</i>	<i>(\$24,665.0)</i>	<i>(\$2,038.0)</i>	<i>(\$24,722.0)</i>
FY 2003 Estimated General Funds Balance	Beginning Balance		Revenue	Expenditures	Ending Balance
Cash Basis	\$496.0	+	\$24,629.0	\$24,665.0	\$460.0
FY 2003 Cash Receipts Attributable to FY 2002	\$1,308.5				
FY 2002 Lapse Period/Section 25 Spending (-\$850/- \$1,131)	(\$1,981.0)				
Modified Accrual Basis	(\$176.5)	+	\$24,639.1	\$24,722.0	(\$259.4)
NOTES:					
FY 2003 estimated beginning modified accrual balance was derived by subtracting the Bureau of the Budget's (BoB) FY 2002 lapse period and other Section 25 spending estimate from the estimated beginning FY 2003 cash balance and adding the estimated FY 2003 cash receipts attributed to FY 2002.					
Fund balances are calculated using the Bureau of the Budget's spending estimates as the Economic and Fiscal Commission does not formulate estimates of expenditures.					
The BoB's spending estimates were converted to modified accrual basis by subtracting prior year lapse period and other Section 25 spending and adding current year lapse period and other Section 25 spending.					

FY 2003 REVENUE ESTIMATES – ANALYSIS OF CASH BASIS vs. MODIFIED ACCRUAL BASIS
Agricultural Premium Fund, Road Fund and Motor Fuel Tax Fund
(\$ in Millions)

AGRICULTURAL PREMIUM FUND								
	FY 2003 Cash Basis	-	<u>FY 2003 Cash Receipts Attributable to FY 2002</u>		+	FY 2004 Cash Receipts Attributable to FY 2003 \$'s	=	FY 2003 Modified Accrual Basis
			\$'s	% of FY 2002 Cash Receipts				
Estimated Revenue	\$25.3		\$0.1	0.5%		\$0.1		\$25.3
Estimated Fund Balance	FY 2003 Beginning Bal.		Revenue			Expenditures		FY 2003 Ending Balance
Cash Basis	\$4.4	+	\$25.3		-	\$23.6	=	\$6.1
Modified Accrual Basis	\$4.4	+	\$25.3		-	\$23.6	=	\$6.1

ROAD FUND								
	FY 2003 Cash Basis	-	<u>FY 2003 Cash Receipts Attributable to FY 2002</u>		+	FY 2004 Cash Receipts Attributable to FY 2003 \$'s	=	FY 2003 Modified Accrual Basis
			\$'s	% of FY 2002 Cash Receipts				
Estimated Revenue	\$2,068.1		\$157.2	7.6%		\$157.2		\$2,068.1
Estimated Fund Balance	FY 2003 Beginning Bal.		Revenue			Expenditures		FY 2003 Ending Balance
Cash Basis	\$822.5	+	\$2,068.1		-	\$2,337.1	=	\$553.5
Modified Accrual Basis	\$822.5	+	\$2,068.1		-	\$2,337.1	=	\$553.5

MOTOR FUEL TAX FUND								
	FY 2003 Cash Basis	-	<u>FY 2003 Cash Receipts Attributable to FY 2002</u>		+	FY 2004 Cash Receipts Attributable to FY 2003 \$'s	=	FY 2003 Modified Accrual Basis
			\$'s	% of FY 2002 Cash Receipts				
Estimated Revenue	\$1,300.3		\$221.1	17.0%		\$221.1		\$1,300.3
Estimated Fund Balance	FY 2003 Beginning Bal.		Revenue			Expenditures		FY 2003 Ending Balance
Cash Basis	\$102.7	+	\$1,300.3		-	\$1,332.8	=	\$70.2
Modified Accrual Basis	\$102.7	+	\$1,300.3		-	\$1,332.8	=	\$70.2

NOTES:

*The Bureau of the Budget's (BoB) estimated FY 2003 beginning cash balances are utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund.

*FY 2003 estimated beginning modified accrual balances were assumed to equal FY 2003 estimated beginning cash balances.

*Fund balance calculations utilize the BoB's spending estimates as the IEFB does not formulate estimates of expenditures.

*Estimates of modified accrual basis spending equal the Bureau of the Budget's estimates of cash basis spending as FY 2002 and FY 2003 lapse spending are assumed to be equal.

APPENDIX

Synopsis of Public Act 90-0479, Pertaining to Budget Formulation

Public Act 90-0479, 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 Economic and Fiscal Commission is to prepare revenue and fund transfer estimates in accordance with Public Act 90-0479 by March 15th of 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.