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March 15, 2015

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 Christine Radogno, Minority Leader of the Senate

FROM: Dan R. Long, Executive Director

RE: FY 2016 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 2016 revenue to the general funds on a modified accrual basis will be \$116.2 million higher than the cash basis estimate. The differential between the two estimates

is largely because lapse period collections in FY 2016 are expected to be slightly higher than FY 2015 lapse period collections, particularly in the area of federal sources.

The Commission estimates that there will be virtually no difference between modified accrual basis revenue to the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund in FY 2016.

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

FY 2016 REVENUE ESTIMATES			
Summary Table			
(\$ in Millions)			
Estimated Revenue by Fund	CGFA Cash Basis vs. Modified Accrual Basis		
	CGFA Base FY 2016 Cash Basis	CGFA Base FY 2016 Modified Accrual Basis	Difference
General Funds	\$32,139.0	\$32,255.2	\$116.2
Agricultural Premium Fund	\$25.5	\$25.5	\$0.0
Road Fund	\$2,978.3	\$2,978.3	\$0.0
Motor Fuel Tax Fund	\$1,212.4	\$1,212.4	\$0.0

The Governor’s Office of Management and Budget included their cash basis and modified accrual revenue estimates in the FY 2016 Budget Book. The GOMB’s FY 2016 cash basis revenue estimate is \$32,049 million. This estimate is \$90 million lower than the Commission’s comparable cash basis estimate of \$32,139 million.

The GOMB’s FY 2016 General Funds estimate on a modified accrual basis is \$31,936 million (using the Budget Book’s FY 2016 “autopilot” budget”). This estimate is \$319 million lower than the Commission’s comparable modified accrual basis estimate of \$32,255 million. The discrepancy between the two agencies is wider under the modified accrual basis simply because the Commission assumes higher lapse period collections attributable to FY 2016 than the Governor’s Office.

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 2015 and 2016;
- 4) used these estimates of accrued revenue received after the close of fiscal years 2015 and 2016 to convert fiscal year 2016 cash basis revenue estimates to modified accrual basis estimates by subtracting fiscal year 2016 cash receipts attributable to fiscal year 2015 and adding fiscal year 2017 cash receipts attributable to fiscal year 2016.

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 2016 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

Following 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 2016 GAAP REPORT

Supplementary Notes March, 2015

Cash Basis Revenue Estimate vs. Modified Accrual Basis Revenue Estimate

- It is estimated that there will be a relatively small difference between FY 2016 revenue measured on a cash basis and FY 2016 revenue measured on a modified accrual basis. The modified accrual basis general funds estimate is \$116.2 million higher than the cash basis estimate.
 - The differential between the two estimates is largely because lapse period collections in FY 2016 are expected to be slightly higher than FY 2015 lapse period collections, particularly in the area of federal sources.
 - 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 2015 beginning cash balance of \$74 million. The FY 2016 beginning cash balance is calculated by adding the Commission's FY 2015 estimated cash basis revenues to the FY 2015 beginning cash balance and by subtracting GOMB's FY 2015 cash basis spending estimate.

FY 2015 Beginning Cash Balance:	\$74 million
FY 2015 CGFA Est. Base Cash Revenue:	\$34,099 million
FY 2015 Est. Cash Spending:	(\$35,687 million)
FY 2015 Ending/FY 2016 Beginning Cash Balance:	(\$1,514 million)

The "modified accrual basis" fund balance calculation starts by adjusting the estimated FY 2016 beginning balance for outstanding revenues and liabilities not accounted for in the cash basis beginning balance.

FY 2015 Ending/FY 2016 Beginning Cash Balance:	(\$1,514 million)
FY 2016 Cash Receipts Attributable to FY 2015:	\$1,565 million
FY 2015 Lapse Period/ Section 25 Spending:	(\$7,549 million)
FY 2015 Ending/FY 2016 Begin. Modified Accrual Balance:	(\$7,498 million)

The estimated FY 2016 modified accrual basis ending balance is calculated by adding estimates of FY 2016 modified accrual basis revenue and subtracting GOMB estimated FY 2016 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.

FY 2016 Estimated Beginning Modified Accrual Balance:	(\$7,498 million)
FY 2016 Estimated Modified Accrual Revenue:	\$32,255 million
FY 2016 Estimated Modified Accrual Expenditures:	(\$38,732 million)
FY 2016 Estimated Ending Modified Accrual Balance*:	(\$13,975 million)

The estimated FY 2016 modified accrual basis ending balance results in a deficit of nearly \$14.0 billion.

CGFA FY 2016 REVENUE ESTIMATE - ANALYSIS OF CASH BASIS VS. MODIFIED ACCRUAL BASIS
 (General Funds - \$'s in Millions)
 March 2015

	FY 2016 Cash Basis Collections	FY 2015 Lapse Period Collections	FY 2016 Lapse Period Collections	FY 2016 GAAP Basis
Estimated General Funds Revenue				
State Taxes				
Individual Income Tax	\$14,766.0	\$304.6	\$264.7	\$14,726.1
Corporate Income Tax	\$2,700.0	\$70.7	\$63.2	\$2,692.5
Sales Taxes	\$8,280.0	\$431.6	\$446.1	\$8,294.5
Public Utility Taxes	\$990.0	\$9.4	\$9.2	\$989.9
Cigarette Tax	\$355.0	\$0.0	\$0.0	\$355.0
Liquor Gallonage Taxes	\$166.0	\$46.3	\$46.6	\$166.3
Vehicle Use Tax	\$32.0	\$0.0	\$0.0	\$32.0
Inheritance Tax	\$300.0	\$0.0	\$0.0	\$300.0
Insurance Taxes & Fees	\$335.0	\$0.0	\$0.0	\$335.0
Corporate Franchise Tax & Fees	\$206.0	\$0.0	\$0.0	\$206.0
Interest on State Funds & Investments	\$25.0	\$0.0	\$0.0	\$25.0
Cook County Intergovernmental Transfer	\$244.0	\$0.0	\$0.0	\$244.0
Other Sources	\$511.0	\$7.3	\$6.3	\$510.0
Subtotal	\$28,910.0	\$869.8	\$836.1	\$28,876.3
Transfers				
Lottery	\$693.0	\$0.0	\$0.0	\$693.0
Gaming Fund Transfer	\$280.0	\$0.0	\$0.0	\$280.0
Proceeds from sale of 10th License	\$10.0	\$0.0	\$0.0	\$10.0
Other	\$647.0	\$0.0	\$0.0	\$647.0
Total State Sources	\$30,540.0	\$869.8	\$836.1	\$30,506.3
Total Federal Sources	\$4,408.0	\$735.2	\$881.6	\$4,554.4
Total Federal & State Sources	\$34,948.0	\$1,605.0	\$1,717.7	\$35,060.7
Refund Fund				
Personal Income Tax	(\$1,477.0)	(\$30.5)	(\$26.5)	(\$1,473.0)
Corporate Income Tax	(\$446.0)	(\$9.9)	(\$10.4)	(\$446.5)
Fund for Advancement of Education	(\$443.0)	\$0.0	\$0.0	(\$443.0)
Commitment to Human Services Fund	(\$443.0)	\$0.0	\$0.0	(\$443.0)
Base General Funds Revenue	\$32,139.0	\$1,564.6	\$1,680.8	\$32,255.2
Regular and Section 25 Expenditures				
	(\$38,210.0)	(\$7,549.0)	(\$8,071.0)	(\$38,732.0)
FY 2016 Estimated General Funds Balance	Beginning Balance	Revenue	Expenditures	Ending Balance
Cash Basis	(\$1,514.0)	\$32,139.0	(\$38,210.0)	(\$7,585.0)
FY 2016 Cash Receipts Attributable to FY 2015	\$1,564.6			
FY 2015 Lapse Period / Section 25 Spending	(\$7,549.0)			
Modified Accrual Basis	(\$7,498.4)	\$32,255.2	(\$38,732.0)	(\$13,975.2)

NOTES:

FY 2015 estimated beginning modified accrual balance was derived by subtracting the Governor's Office of Management and Budget's (GOMB) FY 2015 lapse period and other Section 25 spending estimate from the estimated beginning FY 2016 cash balance and adding the estimated FY 2016 cash receipts attributed to FY 2015.

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 2016 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 2016	FY 2016 Cash Receipts Attributable to FY 2015	FY 2017 Cash Receipts	FY 2016
	Cash Basis	\$'s	Attributable to FY 2016 - \$'s	Modified Accrual Basis
Estimated Revenue	\$25.5	\$4.3	\$4.3	\$25.5
		16.7%		
Estimated Fund Balance	FY 2016 Beginning Balance	Revenue	Expenditures	FY 2016 Ending Balance
Cash Basis	\$0.9	\$25.5	\$22.9	\$3.5
Modified Accrual Basis	\$0.9	\$25.5	\$22.9	\$3.5

Road Fund

	FY 2016	FY 2016 Cash Receipts Attributable to FY 2015	FY 2017 Cash Receipts	FY 2016
	Cash Basis	\$'s	Attributable to FY 2016 - \$'s	Modified Accrual Basis
Estimated Revenue	\$2,978.3	\$496.4	\$496.4	\$2,978.3
		16.7%		
Estimated Fund Balance	FY 2016 Beginning Balance	Revenue	Expenditures	FY 2016 Ending Balance
Cash Basis	\$968.3	\$2,978.3	\$2,933.6	\$1,013.0
Modified Accrual Basis	\$968.3	\$2,978.3	\$2,933.6	\$1,013.0

Motor Fuel Tax Fund

	FY 2016	FY 2016 Cash Receipts Attributable to FY 2015	FY 2017 Cash Receipts	FY 2016
	Cash Basis	\$'s	Attributable to FY 2016 - \$'s	Modified Accrual Basis
Estimated Revenue	\$1,212.4	\$202.1	\$202.1	\$1,212.4
		16.7%		
Estimated Fund Balance	FY 2016 Beginning Balance	Revenue	Expenditures	FY 2016 Ending Balance
Cash Basis	\$115.0	\$1,212.4	\$1,253.2	\$74.1
Modified Accrual Basis	\$115.0	\$1,212.4	\$1,253.2	\$74.1

NOTES:

- * The Governor's Office of Management and Budget (GOMB) estimated FY 2016 beginning cash balances are utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund.
- * FY 2016 estimated beginning modified accrual balances were assumed to equal FY 2016 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 2015 and FY 2016 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.

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of State debt impact notes on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a "Monthly Briefing", the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Legislative Capital Plan Analysis" examines the State's capital appropriations plan and debt position. "The Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year "Budget Summary"; "Report on the Liabilities of the State Employees' Group Insurance Program"; and "Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program". The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

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