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March 16, 2020

MEMORANDUM

TO: The Honorable JB Pritzker, Governor, State of Illinois
The Honorable Don Harmon, 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 2021 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 2021 revenue to the general funds on a modified accrual basis will be \$126.1 million higher

than the cash basis estimate. The differential between the two estimates is because lapse period collections in FY 2021 are expected to be higher than FY 2020 lapse period collections. This is mainly because of higher levels of anticipated lapse spending from federal sources in FY 2021 as compared to FY 2020.

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 2021.

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

FY 2021 REVENUE ESTIMATES			
Summary Table			
(\$ in Millions)			
Estimated Revenue by Fund	CGFA Cash Basis vs. Modified Accrual Basis		
	CGFA Base FY 2021 Cash Basis (Current Law)	CGFA Base FY 2021 Modified Accrual Basis	Difference
General Funds	\$40,645.0	\$40,771.1	\$126.1
Agricultural Premium Fund	\$12.0	\$12.0	\$0.0
Road Fund	\$4,095.1	\$4,100.6	\$5.5
Motor Fuel Tax Fund	\$1,307.3	\$1,311.2	\$1.3

The Governor’s Office of Management and Budget included their cash basis and modified accrual revenue estimates in the FY 2021 Budget Book. The GOMB’s FY 2021 cash basis revenue estimate (Governor’s Introduced Budget) is \$42,131 million. This estimate is \$1,486 million higher than the Commission’s comparable cash basis estimate of \$40,645 million.

However, the GOMB forecast contains \$1,435 million in revenues from the assumed adoption of SJRCA 1 (the graduated tax structure), which still has to be approved by Illinois voters in November 2020. If this assumed revenue is removed from GOMB’s total, their FY 2021 cash balance would be reduced to \$40,696 million, which is only \$51 million above the Commission’s FY 2021 estimate of \$40,645 million.

The GOMB’s FY 2021 General Funds estimate on a modified accrual basis is reported to be \$42,388 million. Again, if the Governor’s initiatives are removed from this total, the figure would be at approximately \$40,953 million. This estimate is \$182 million higher than the Commission’s comparable modified accrual basis estimate of \$40,771 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 year 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 2020 and 2021;
- 4) used these estimates of accrued revenue received after the close of fiscal years 2020 and 2021 to convert fiscal year 2021 cash basis revenue estimates to modified accrual basis estimates by subtracting fiscal year 2021 cash receipts attributable to fiscal year 2020 and adding fiscal year 2022 cash receipts attributable to fiscal year 2021.

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 2020 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. The following funds are included in the “general funds” category: General Revenue Fund, Education Assistance Fund, Common School Fund, General Revenue-Common School Special Account Fund, Fund for the Advancement of Education, Commitment to Human Services Fund, and the Budget Stabilization Fund.
- **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 2021 GAAP REPORT

Supplementary Notes March, 2020

Cash Basis Revenue Estimate vs. Modified Accrual Basis Revenue Estimate

- It is estimated that there will be a relatively small difference between FY 2021 revenue measured on a cash basis and FY 2021 revenue measured on a modified accrual basis. The modified accrual basis general funds estimate is \$126.1 million higher than the cash basis estimate.
- The differential between the two estimates is largely because lapse period collections in FY 2021 are expected to be slightly higher than FY 2020 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 2020 beginning cash balance of \$466 million, per the financial summary table published in the FY 2021 Budget Book. The FY 2021 beginning cash balance is calculated by adding the Commission's FY 2020 estimated cash basis revenues to the FY 2020 beginning cash balance and by subtracting GOMB's FY 2020 cash basis spending estimate.

Description	Amount	Source
FY20 Beginning Cash Balance:	\$466 million	FY21 Budget Book
FY20 CGFA Est. Base Cash Revenue:	\$40,679 million	CGFA
FY20 Est. Cash Spending:	(\$40,385 million)	FY21 Budget Book
FY20 Ending/FY21 Beginning Cash Balance:	\$760 million	Calculation

The "modified accrual basis" fund balance calculation starts by adjusting the estimated FY 2021 beginning balance for outstanding revenues and liabilities not accounted for in the cash basis beginning balance.

Description	Amount	Source
FY20 Ending/FY21 Beginning Cash Balance:	\$760 million	Calculation
FY21 Cash Receipts Attributable to FY20:	\$1,723 million	CGFA
FY20 Lapse Period/Section 25 Spending:	(\$7,499 million)	FY21 Budget Book
FY20 End/FY21 Begin. Modified Accrual Bal.:	(\$5,017 million)	Calculation

The estimated FY 2021 modified accrual basis ending balance is calculated by adding estimates of FY 2021 modified accrual basis revenue and subtracting GOMB estimated FY 2021 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
FY21 Est. Beginning Modified Accrual Balance:	(\$5,017 million)	Calculation
FY21 Estimated Modified Accrual Revenue:	\$40,771 million	CGFA
FY21 Estimated Modified Accrual Expenditures:	(\$41,999 million)	FY21 Budget Book
FY21 Est. Ending Modified Accrual Balance:	(\$6,245 million)	Calculation

The estimated FY 2021 modified accrual basis ending balance results in a deficit of approximately \$6.2 billion.

It should be noted that the Governor’s spending figures shown above assume that SJRCA 1 would be approved by the voters, thereby allowing P.A. 101-0008 to go into effect on January 1, 2021. However, the CGFA revenues shown above assume “current law” and do not include the impact of the tax change.

If SJRCA 1 were to fail and the tax changes under P.A. 101-0008 do not go into effect (assuming no other revenue proposals), GOMB’s budget holds certain FY 2021 appropriations in reserve. Additionally, this budget proposal would then provide that other interfund transfers and interfund borrowings would be used to maintain a balanced budget for FY 2021. These “reverse action” items, which amount to \$1.396 billion, can be viewed on page 41 of the FY 2021 Budget Book.

If SJRCA 1 were to prevail and the graduated tax structure and the corporate income tax increase under P.A. 101-0008 were to go into effect, the Commission estimates that the impact on net receipts in FY 2021 would be approximately \$1.446 billion. *(Because the change would occur half-way through the fiscal year, the estimated full implementation impact of \$3.6 billion would occur in subsequent fiscal years).* Therefore, if accounting for these additional revenues, as shown below, the resulting FY 2021 ending modified accrual balance would change from a deficit of \$6.2 billion to a deficit of approximately \$4.8 billion.

Description	Amount	Source
FY21 Est. Beginning Modified Accrual Balance:	(\$5,017 million)	Calculation
FY21 Estimated Modified Accrual Revenue:	\$40,771 million	CGFA
FY21 Net Receipt Increase due to PA 101-0008 :	\$1,446 million	CGFA
FY21 Estimated Modified Accrual Expenditures:	(\$41,999 million)	FY21 Budget Book
FY21 Est. Ending Modified Accrual Balance:	(\$4,799 million)	Calculation

FY 2021 REVENUE ESTIMATES - ANALYSIS OF CASH BASIS VS. MODIFIED ACCRUAL BASIS
 Agricultural Premium Fund, Road Fund, & Motor Fuel Tax Fund
 \$'s in Millions

<i>Agricultural Premium Fund</i>					
	FY 2021 Cash Basis	FY 2021 Cash Receipts \$'s	FY 2020 Cash Receipts % of FY 2020 Cash Receipts	FY 2022 Cash Receipts Attributable to FY 2021 - \$'s	FY 2021 Modified Accrual Basis
Estimated Revenue	\$12.0	\$1.9	16.0%	\$1.9	\$12.0
Estimated Fund Balance	FY 2021 Beginning Balance	Revenue		Expenditures	FY 2021 Ending Balance
Cash Basis	\$1.0	\$12.0	-	\$2.0	\$11.0
Modified Accrual Basis	\$1.0	\$12.0	-	\$2.0	\$11.0
<i>Road Fund</i>					
	FY 2021 Cash Basis	FY 2021 Cash Receipts \$'s	FY 2020 Cash Receipts % of FY 2020 Cash Receipts	FY 2022 Cash Receipts Attributable to FY 2021 - \$'s	FY 2021 Modified Accrual Basis
Estimated Revenue	\$4,095.1	\$542.1	13.4%	\$547.6	\$4,100.6
Estimated Fund Balance	FY 2021 Beginning Balance	Revenue		Expenditures	FY 2021 Ending Balance
Cash Basis	\$538.0	\$4,095.1	-	\$4,173.1	\$460.0
Modified Accrual Basis	\$538.0	\$4,100.6	-	\$4,173.1	\$465.5
<i>Motor Fuel Tax Fund</i>					
	FY 2021 Cash Basis	FY 2021 Cash Receipts \$'s	FY 2020 Cash Receipts % of FY 2020 Cash Receipts	FY 2022 Cash Receipts Attributable to FY 2021 - \$'s	FY 2021 Modified Accrual Basis
Estimated Revenue	\$1,307.3	\$212.7	16.6%	\$216.5	\$1,311.2
Estimated Fund Balance	FY 2021 Beginning Balance	Revenue		Expenditures	FY 2021 Ending Balance
Cash Basis	\$122.5	\$1,307.3	-	\$1,370.4	\$59.4
Modified Accrual Basis	\$122.5	\$1,311.2	-	\$1,370.4	\$63.3

NOTES:

- * The Governor's Office of Management and Budget (GOMB) estimated FY 2020 beginning cash balances are utilized for the Agricultural Premium Fund, the Road Fund, and the Motor Fuel Tax Fund.
- * FY 2021 estimated beginning modified accrual balances were assumed to equal FY 2021 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 2020 and FY 2021 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.