

BUDGET & TAX POLICY INITIATIVE SPECIAL REPORT

A publication of
Voices for Illinois Children

April 2004

THE GOVERNOR'S FY 2005 BUDGET PROPOSAL: Support for Children and Families in a Time of Continuing Deficits



This special report was prepared as a part of Voices for Illinois Children's Budget & Tax Policy Initiative. Maneesha Date, associate of the Budget & Tax Policy Initiative, is the author of this analysis. To promote discussion of the information and analysis presented in this brief, we invite readers to make copies of the brief and to disseminate it.

About Voices for Illinois Children

Voices for Illinois Children is a statewide, non-profit, non-partisan group of child advocates who work with families, communities and policy-makers to ensure that all children grow up healthy, nurtured, safe and well educated. Through policy analysis, public education and outreach, Voices generates support from civic, business and community leaders for cost effective and practical proposals to improve the lives of Illinois children. Jerome Stermer is the president of Voices for Illinois Children, and James J. Mitchell, III, is the chair of the board of directors.

Voices for Illinois Children
208 S. LaSalle St.
Suite 1490
Chicago, IL 60604-1120
phone: 312-456-0600
fax: 312-456-0088
<http://www.voices4kids.org>
e-mail: info@voices4kids.org

About the Budget & Tax Policy Initiative

Investing in our children's health, education, safety and welfare is the long-term, common sense approach to preserving and enhancing the well being of children, their families and all citizens of Illinois. Smart investment decisions require good information, sound analysis and timely action. Voices for Illinois Children helps the state make those smart investment decisions through the work of its Budget & Tax Policy Initiative. The Budget & Tax Policy Initiative identifies and analyzes the state's revenue and spending policies to help Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul. Ann Courter is the director of the Budget & Tax Policy Initiative.

The initiative is supported by grants from the Ford Foundation, the Annie E. Casey Foundation and the Chicago Community Trust.

For More Information...

If you would like to know more about the information included in this report, or if you would like to learn about other areas of the governor's proposed budget for FY 2005, contact Maneesha Date at 312-516-5568 or mdate@voices4kids.org.

What's Inside?	
<u>Topic</u>	<u>Page #</u>
Appropriations and Revenues	1
Issue Area and Department Spending	4
PreK-12 Education and Child Care	5
Health and Income Supports	8
Community Health and Prevention	10
Intervention for Children at Risk	10
Out-of-School Time & Community Schools	11
Corrections	11
Appendix A: Balancing the Budget	13
Appendix B: Historical Funding Trends	15
Appendix C: Transfers from ISBE	19

THE GOVERNOR'S FY 2005 BUDGET PROPOSAL:

Support for Children and Families in a Time of Continuing Deficits

As the state's fiscal crisis lingered on, Governor Rod Blagojevich again faced multi-billion-dollar deficits in crafting his proposed budget for the second year of his administration. Illinois continues to experience tough economic times, with high unemployment (6.2 percent, in contrast to the national rate of 5.6 percent¹). A shift away from manufacturing jobs toward more service-oriented employment has meant a reduction in wages for many workers, and lower income and sales tax revenues for the state. While the economy has begun to show signs of recovery, lower-than-expected revenues and natural spending pressures have left the state facing a deficit this year which the Governor's Office of Management and Budget estimates to be \$1.7 billion.

The Governor presented his fiscal year 2005 budget proposal in two sections, separated by over a month: the first part, the state's operating budget, on February 18, 2004, and the second part, his proposed capital budget, on March 23, 2004. This analysis deals only with the operating budget except in the case of school construction funds. The Governor's 2005 proposed budget closes the assumed \$1.7 billion gap between revenues and spending pressures and generally maintains investments in many important programs for children and families, with increases in education and health care. However, the proposed budget also includes a variety of cuts and fails to fund education at the level the Governor acknowledges is necessary. The Governor's revenue raising and cost savings proposals include closing tax loopholes, increasing fees, reducing agency staff, and consolidating various agencies.

Governor Blagojevich has demonstrated his commitment to protecting vital services for vulnerable populations by increasing funding for K-12 education, expanding health insurance eligibility for low-income children and families, and putting more money into child care assistance.

In the end, the Governor's proposal increases overall spending in the operating budget by \$2.4 billion over FY 2004, \$1.7 billion of which is directed to the state's general funds—the most critical funds for education, health care, human services and public safety programming. This increase in general funds, however, does not restore cuts in general fund spending made in FY 2003 under former Governor George Ryan. In this time of fiscal crisis, many governors are proposing cuts in education, health care and human services to balance state budgets, areas that have been historically underfunded in Illinois. Governor Blagojevich has demonstrated his commitment to protecting vital services for vulnerable populations by increasing funding for K-12 education, expanding health insurance eligibility for low-income children and families, and putting more state dollars into child care assistance.

Appropriations and Revenues

Appropriations

A governor generally builds the coming year's budget proposal on the present year's budget, in which the present year appropriations serve as a base on which to identify

Table 1. Operating Budget Appropriations (in billions of dollars)	FY 2004 Approp	FY 2005 Proposal	% Change '04-'05
Total – All Funds	41.1	43.5	6%
General Funds	22.2	24.0	8%

and shift the spending needs for the coming year. Total recommended operating budget appropriations increase from \$41.1 billion this fiscal year to \$43.5 billion for FY 2005, an increase of nearly 6 percent.

As part of the strategy to manage this year's budget deficit, the Governor continues actions taken for FY 2004, including cutting administrative costs, reducing the state workforce, and setting aside a 2 percent budgetary reserve for all funds in agencies controlled by the Governor. For the proposed FY 2005 budget, the Governor plans targeted headcount reductions as well as consolidating and streamlining state agencies to reduce administrative costs.

In the FY2005 operating budget, the Governor maintains and even increases many investments in children, families and communities through increases in the state's general funds. The state's general funds provide most of the spending for education, health care, human services and public safety programming. Spending among these general funds grows from a \$22.2 billion appropriation in FY 2004 to a \$24.0 billion proposal for FY 2005, an increase of nearly 8 percent. However, this 8 percent increase over the previous fiscal year masks the fact that general funds appropriations were drastically cut in FY 2003. In fact, the FY 2005 general funds total represents an increase of only 2 percent when compared with FY 2002 spending.

Revenues

Illinois' revenue structure is insufficient for meeting state spending needs over time, a situation referred to as a *structural deficit*. While the Governor was able to close a combined FY 2003 and FY 2004 \$5 billion deficit in the FY 2004 budget, the one-time, stopgap measures he employed were not designed to generate adequate revenues going forward. Moreover, the structural inadequacies of the Illinois revenue system have resurfaced with a \$1.7 billion deficit for FY 2005. Again, his FY 2005 budget proposal purports to close this gap, this year, but without an overhaul of the entire tax system, deficits will continue into the future. The current structure of Illinois' tax system does not generate adequate revenues to fund existing services going forward. Growth in needs (even if adjusted only for inflation and population growth) far outpaces growth in tax revenues.

There are two primary reasons that Illinois' revenue system fails to grow at an adequate rate. First, the Illinois tax system is *regressive* – it takes a much greater share of income from low- and middle-income taxpayers than from the wealthy. In fact, the lowest 20 percent of income earners in Illinois – with average annual incomes of \$8,900 – pay more than twice as much in state and local taxes as a share of their incomes as do the wealthiest 1 percent – with average annual incomes that exceed \$1.3 million.² As income disparities grow, assessing the majority of tax burden on those least able to pay results in a system in which state revenue is reliant on an ever-diminishing source while needs continue to grow.

Illinois' low and constitutionally mandated flat-rate income tax imposes the lowest tax rate among the 41 states that use a broad-based income tax (42, including the District of Columbia) for the highest-income earners of any state in the nation except Pennsylvania. Second, Illinois' sales tax is levied on very few categories of taxable services, failing to capture revenue from the fastest-growing sector of the economy. Nearly 90 percent of these services are currently exempt from the sales tax in Illinois.

The Illinois tax system is regressive – it takes a much greater share of income from low- and middle-income taxpayers than from the wealthy. As income disparities grow, assessing the majority of tax burden on those least able to pay results in a system in which state revenue is reliant on an ever-diminishing source while needs continue to grow.

FY 2005 general funds revenue projections total \$26.1 billion, a 3.7 percent decrease from FY 2004 expectations. The difference in base revenues for the general

Table 2. Revenues (in billions of dollars)	FY 2003 (final)	FY 2004 (expected)	FY 2005 (expected)
All Funds	38.9	44.4	42.8
General Funds	24.9	27.1	26.1

funds from FY 2004 to FY 2005 is negligible (\$25.3 billion for both fiscal years). The \$1 billion overall decrease is largely due to the one-time use of \$1.6 billion in proceeds from the issuance of \$10 billion of pension obligation bonds in FY 2004. Other major differences from FY 2004 to FY 2005 include an increase of \$350 million from the 10th riverboat license, a decrease of \$215 million in revenue from federal sources, and a decrease of \$160 million from other state sources.

The “deficit reduction sources” outlined in the proposal make up approximately \$803 million or 3 percent of general funds revenues for FY 2005. Unlike last year, when the proposed measures to balance the budget included many non-recurring, one-time revenue sources, the proposed budget for FY 2005 contains more sources of long-term, recurring revenue. These new taxes, cuts, and transfers include:

- *Corporate tax loophole closings*: \$223 million – The three largest revenue generators of these include taxing all corporate income as business income, eliminating foreign tax havens, and using straight-line instead of accelerated depreciation.
- *Sales tax loophole closings*: \$98 million – These include means-testing the farm chemicals exception, collecting sales tax on all canned software, and eliminating the watercraft-use tax loophole.
- *Elimination of motor fuel tax exemption for non-farm, non-highway vehicles*: \$74 million
- *Airport transportation tax*: \$6 million
- *Hospital assessment surcharge*: \$160 million³
- *Taxes from 10th casino license*: \$25 million
- *Tax redistributions to the General Revenue Fund*: \$71 million – This includes suspension of the transfer from the Real Estate Transfer Tax for Open Space Land Acquisition and Natural Areas Acquisition Fund as well as reductions in other tax redistributions.
- *Fund transfers*: \$39 million – Transfers are made from dormant funds and those with excess cash balances.
- *Fee Increases*: \$57 million – Affected agencies include the Illinois Emergency Management Agency, the Lottery, the Department of Financial and Professional Regulation, the State Police, and the Secretary of State.
- *Sale of Assets*: \$50 million – This figure includes the sale of the Illinois State Toll Authority headquarters in Downers Grove and some Elgin Mental Health Center property.

FY 2005 expected general funds revenues exceed proposed appropriations by \$2.2 billion. This money is largely used for legislatively required transfers to other state funds and a \$50 million transfer to the budget stabilization fund. Pension obligation bond debt service also accounts for another \$495 million of this money.

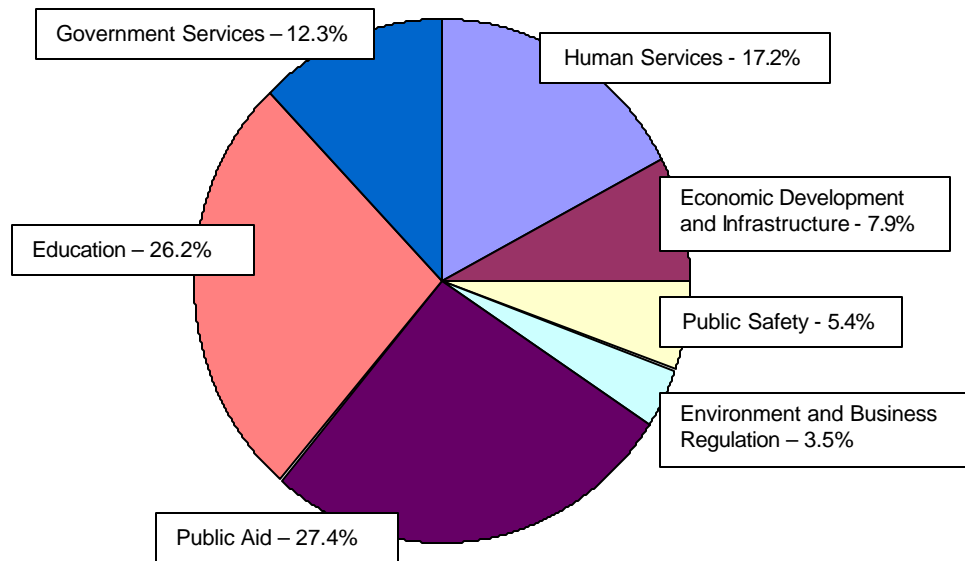
The remainder of this report analyzes how state investments in children and families fare in the FY 2005 budget proposal relative to previous fiscal years. In all cases, this analysis compares the FY 2005 spending recommendation with the FY 2004 appropriation. A detailed history of funding for the programs discussed in the text can be found in Appendix B, beginning on p. 15.

Issue Area and Department Spending

Public Aid (the major component of which is medical assistance) and education (including elementary, secondary and higher education) receive more than half of the operating appropriations in the FY 2005 budget. Education makes up the largest proportion of general fund spending. The figure below provides a complete breakdown of spending patterns.

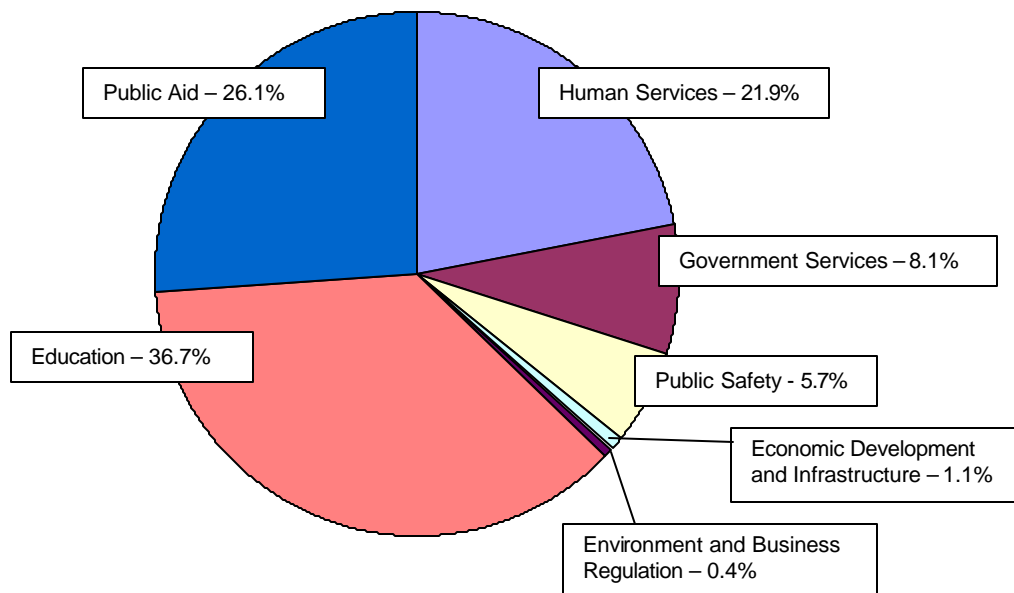
**Figure 1. Fiscal Year 2005 Operating Appropriations by Major Purpose⁴
Percentage of Total**

All Funds Total - \$43.504 Billion*



**\$41.0 billion of the above All Funds Appropriations are expected to be expended in FY 2005*

General Funds – \$23.956 Billion



Focusing on six departments that encompass a large portion of child, family and community programming, budget changes between FY 2004 and FY 2005 range from -5.2 to 17.8 percent (see Table 3). In all cases, the total budget changes mask the shifts in internal funding priorities (e.g., from administration to programs or from one program to another).

The Department of Public Aid (DPA) experiences the largest increase (17.8 percent) in the budget proposal, driven largely by an increase in Medicaid spending through both cost and population increases. The 6.6 percent increase for the Illinois State Board of Education (ISBE) represents an increase in both state and federal dollars. The 2.1 percent increase for the Department of Human Services (DHS), again due to an increase in state and federal dollars, is slightly less than the increase from FY 2003 to FY 2004. The Department of Public Health (DPH) budget grows slightly – by 1.5 percent, the result of increased state dollars that outweigh a cut in federal dollars.

The 5.2 percent decrease in the Department of Corrections (DOC) budget is primarily a result of the recommended closing and scaling-back of facilities, including closing the youth facility in St. Charles and the Vandalia prison. The Department of Children and Family Services (DCFS) experiences a 4.3 percent decrease in the FY 2005 budget proposal, with cuts to protective services, family support programs, foster care and group homes.

Table 3. Agency Operating Budget Totals: FY 2004 & 2005 (in millions of dollars)

Agency	FY 2004 Appropriation	FY 2005 Proposed	% Change FY '04-'05
ISBE	7,446	7,940	6.6
DPA	10,184	11,999	17.8
DHS	5,137	5,246	2.1
DCFS	1,469	1,406	-4.3
DPH	349	355	1.5
DOC	1,417	1,343	-5.2

PreK-12 Education and Child Care

Governor Blagojevich has proposed creating a new state Department of Education to assume most of the duties of the current Illinois State Board of Education. His budget recommendation for FY 2005, however, is based on maintaining the existing structure. Overall, the Governor recommends an increase of 6.6 percent (\$493.5 million) in the Illinois State Board of Education FY 2005 budget (see Table 4), an important investment given the financial struggles facing Illinois school districts, more than 80 percent of which already are deficit spending. This reflects a 7.4 percent increase (\$396 million) in general revenue funds, a 6.9 percent increase (\$142.8 million) in federal funds and a decrease in other state funds. Though the Governor has included \$400 million in new state funds for early childhood, elementary and secondary education, he did not propose how to allocate the new money, and his stated priorities total well over \$600 million.

Early Childhood Block Grant

Last year, Governor Blagojevich set a three-year funding goal of \$90 million additional dollars for the Early Childhood Block Grant to move towards “universal” preschool access for all 3- and 4-year-olds in Illinois whose parents want them to participate. As a first step towards that goal, the governor increased the Early Childhood Block Grant by nearly \$30 million in FY 2004, which translated into a net gain of \$24.5 million because the governor transferred the unspent \$5.2 million Universal Pre-School line item that existed in FY 2003 to the block grant for FY 2004. While this increase did extend preKindergarten opportunities to approximately 8,000 at-

risk children, many at-risk children remain unserved. Another \$30 million is necessary for FY 2005 to serve an additional 8,000 children and to stay on track with the Governor's plan.

Funding for the State Board of Education's special education preschool program, funded entirely through federal dollars, remains level at \$25 million.

K-12 Education

Each year, the Governor and the legislature have an opportunity to adjust the *foundation level* – the state's guaranteed minimum per-pupil expenditure, currently set at \$4,810. The school funding formula then considers such factors as a school district's property values and its percentage of students from low-income families, as well as student enrollment to determine how much General State Aid will be provided to the district. The actual amount provided to a school district by the state (the General State Aid) is largely the difference between the per pupil amount a district is able to raise through local property taxes and the amount set as the state's foundation level. By taking into account both the population a district serves and the district's capacity to cover education costs with local resources, the formula is considered to be an efficient and equitable way of distributing state funds given the general over-reliance on property tax in the school funding system. Local schools can then target General State Aid as they see fit.

Though the Governor has included \$400 million in new state funds for early childhood, elementary and secondary education, he did not propose how to allocate the new money, and his stated priorities total well over \$600 million.

**Table 4. Education and Early Care Funding:
FY 2004 & 2005 (in millions of dollars)^a**

Program (agency)	FY 2004 Appropriation	FY 2005 Proposal	% Change
ISBE Total	7,446.4	7,939.9	6.6
General Funds (ISBE)	5,297.4	5,693.7	7.5
Federal Funds (ISBE)	2,073.8	2,216.7	6.9
Education Accountability (ISBE)^b	0.0	400.0	--
General State Aid (ISBE)	3,484.2	3,484.2	0.0
Special Education (ISBE/DCFS)	741.5	750.3	1.2
Early Childhood Education Block Grant (ISBE)	213.3	213.3	0.0
Charter Schools	8.2	6.2	-24.1
Literacy Programs	79.1	79.1	0.0
Child Care (DHS)	666.0	693.5	4.1
Child Care (DCFS)	25.1	21.1	-15.9
Preschool (Special Education)	25.0	25.0	0.0

a. Three programs, totaling \$220.6 million, were moved from ISBE to other agencies in the Governor's FY 2005 proposal and are not included in the FY 2004 or FY 2005 totals presented here. For detail see Appendix C.

b. This line item represents the Governor's \$400 million in new state funds, not yet divided between his priorities.

Last year, Governor Blagojevich and the legislature increased the foundation level from \$4,560 in FY 2003 to \$4,810 for FY 2004. This \$250 increase was intended to be the first in a series of increases totaling more than \$1,000, aimed at reaching the level recommended by the Education Funding Advisory Board as necessary for an adequate education. Increasing General State Aid remains one of the Governor's stated priorities. It would require an additional \$396.5 million, nearly all of the \$400 million in new state funds the Governor proposes for education, to pay for another \$250 increase in the foundation level.⁵

Fully reimbursing school districts for state-mandated categorical programs such as

services for students with special education needs and transportation is another of the Governor's

priorities. In fiscal years 2003 and 2004, the state used a reimbursement rate of 91 percent, down from 100 percent in FY 2002. It will require an additional \$139.1 million to again fully reimburse school districts for these costs.⁶

Table 5. Estimated Fiscal Year 2005 Cost of New Programs in the Governor’s Education Plan 2004⁷ (in millions of dollars)

Program Area	Estimated FY 2005 Cost
Imagination Libraries	9.6
Reading Specialists	15.0
Project Success	5.0
GRADS Initiative	2.0
Childhood Hunger Relief Act	1.0
Governor’s Fitness Challenge	0.3
Improve food inspection for Schools ^a	0.5
Illinois Tech Prep Program	0.2
Community Service ^b	0.0

a. Proposed fee would offset this cost.
b. To be implemented in FY 06

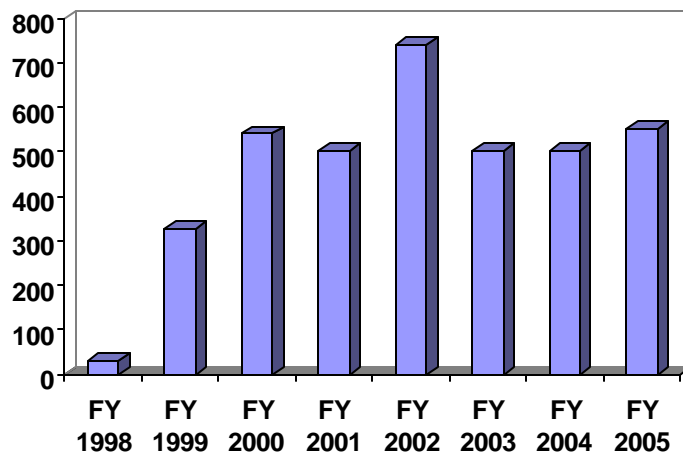
In addition, the Governor’s education plan includes the initiatives outlined in Table 5, which total more than \$33 million and for which there are not yet appropriations in his FY 2005 proposal. Project Success, previously housed in DHS, links parents and children with social services through the school system. This program had its FY 2002 funding drastically cut mid-year and it was eliminated in FY

2003. Furthermore, many grants such as Gifted Education (\$19 million, eliminated) and the School Safety and Educational Improvement grant (cut by \$24 million) were cut or eliminated in FY 2004 and are not restored as part of the FY 2005 budget proposal.

School Construction

In the Governor’s proposed capital budget, he includes an additional \$550 million in new appropriations for school construction. The School Construction Program provides funds for new facilities to reduce student overcrowding and replace aged and out-of-date buildings. New appropriations for school construction have grown dramatically since the inception of the program in FY 1998 (see Figure 2). For FY 2005, the Governor proposes an

Figure 2. Elementary-Secondary Education: School Construction Program New Appropriations (in millions of dollars)⁸



enhanced School Construction Program which for the first time allows for the creation of pre-kindergarten and kindergarten classroom space and shared use facilities that will also benefit community programs such as libraries, clinics and after-school programs.

Child Care

The DHS child care assistance program receives a \$27.6 million increase in this year’s budget proposal bringing the FY 2005 total to \$693.5 million. This reflects an increase in the average number of children served on a monthly basis from 194,000 in FY 2004 to 201,000 for FY 2005 due to an update in income-eligibility guidelines, which began in FY 2004 and will be done annually. The DCFS child care program, on the other hand, was cut by nearly 16 percent, bringing the FY 2005 recommendation to \$21.1 million down from \$25.1 million in FY 2004.

Great START

Great START enhances salaries for qualified early childhood professionals who further their education and remain in the child care field. Great START is level-funded between FY 2004 and the FY 2005 proposal at \$7.16 million.

Health and Income Supports

Illinois is one of only nine states that has experienced a significant increase in poverty over the last few years⁹. The percentage of low-income uninsured children in Illinois also rose over this time period¹⁰. Family economic security and medical care remain vital to the well-being of children and families. In his FY 2005 budget

**Table 6. Health and Income Support Funding:
FY 2004 & 2005 (in millions of dollars)**

Program Area (Department)	FY 2004 Approp	FY 2005 Proposal	% Change
Medical Assistance (DPA) ^a	9,554.5	11,294.2	18.2
TANF (DHS)	115.54	115.54	0.0
Child Support Enforcement (DPA)	214.40	205.53	-4.1
Emergency Assistance (DHS)	.98	.98	0.0
Emergency Food and Shelter (DHS)	9.71	9.71	0.0
Emergency Food Program (DHS)	5.28	5.28	0.0

a. This includes Medical Assistance appropriations at the Department of Public Aid except: the Excellence in Academic Medicine Act, Medical Care: Chronic Renal Disease, Medical Care: Sexual Assault Victims, and Medical Care: Hemophilia. Medical Assistance includes both state and federal matching funds.

proposal, Governor Blagojevich generally maintains investments for family economic security and significantly expands medical assistance programs. Governor Blagojevich has also proposed transitioning certain programs from a grant-based structure to a fee-for-service structure, estimated to bring in \$60 million in additional federal matching funds.

Medical Assistance

Medicaid, KidCare, FamilyCare and Senior Care make health services available to 1.85 million needy Illinois residents on a monthly basis. Medical assistance programs receive a large boost in funding in the Governor's FY 2005 budget proposal exceeding FY 2004 totals by 18.2 percent (not including four line items; see Table 6).

The FY 2005 proposed budget expects the population served by KidCare and FamilyCare to grow from about 141,000 in FY 2004 to 190,500 in FY 2005, an increase of 35.1 percent. That growth predominantly reflects recent policy changes that expand eligibility for children and families.

KidCare and FamilyCare are funded entirely through Medicaid appropriations. The FY 2005 proposed budget expects the population served by KidCare and FamilyCare to grow from about 141,000 in FY 2004 to 190,500 in FY 2005, an increase of 35.1 percent. That growth predominantly reflects recent policy changes that expand eligibility for children and families. Last year, the governor and the legislature increased eligibility for KidCare to 200 percent of the federal poverty level from 185 percent and increased FamilyCare eligibility from 49 to 90 percent of the federal poverty level. For FY 2005, the Governor has

proposed further eligibility expansion for FamilyCare up to 133 percent of the federal poverty level (about \$24,500 annually for a family of four), for an estimated increase in enrollment of 42,500 parents. KidCare and FamilyCare expansion are funded by a very favorable federal match, which matches every 35 cents of state spending with 65 cents of federal spending. Growth in financial obligations for these programs between FY 2004 and the FY 2005 proposal totals \$6.0 million for KidCare and \$45.0 million for FamilyCare¹¹.

The budget recommendation, however, does not restore the average 6 percent cut made to payment rates for medical providers in FY 2003. If approved by the federal Center for Medicare and Medicaid Services, the hospital assessment program, Public Act 93-569, will match assessment payments with federal dollars to provide enhanced reimbursement for Illinois providers. The payment-to-cost ratio will improve if this program is approved. On-time bill payments implemented in FY 2004 are budgeted to continue for FY 2005.

Income Assistance

The Governor's recommendation for Temporary Assistance to Needy Families remains steady at \$115.5 million. Governor Blagojevich does not recommend an increase in the monthly cash grant. In FY 2003, the grant was increased by 5 percent to \$396 for a family of three. If the grant had kept pace with inflation since 1990, the monthly amount would be about \$537; if it had kept pace since 1975, it would be about \$831.

The Governor recommends that DPA's Child Support Enforcement Unit, the entity in charge of pursuing child support collections, have its funding reduced by 4.1 percent (nearly \$9 million) in FY 2005. This reduction would take the unit's budget from \$214.4 million to \$205.5 million. The Governor's recommendation for the DHS emergency assistance, which provides assistance to TANF eligible families in the event of an emergency, is that it remain level-funded at \$980,000 for FY 2005. The emergency food and shelter program and the emergency food program also remain level-funded at \$9.71 million and \$5.28 million, respectively, to provide funding to homeless shelters and distribute USDA commodities to food pantries.

Last year, the state's earned income tax credit (EITC), which provides tax relief to low- and middle-income working Illinoisans, was set to expire. The Governor and the legislature recognized the importance of the state EITC and responded by making it both permanent and refundable. The new refundability provision allows a family to get the full value of the credit even if their income tax liability is less than the amount of the credit due them. This element of the law's reauthorization is key because although a low-income family may not earn enough to owe state income tax, that family still faces a disproportionate tax burden in property, sales and excise taxes. The state EITC can now serve to partially offset these taxes as well.

The state's earned income tax credit (EITC), which provides tax relief to low- and middle-income working Illinoisans, was made permanent and refundable last year. Tax filing year 2003 returns processed to date indicate that 533,000 returns have claimed the Illinois EITC for a total of \$63.5 million, with nearly 80 percent of these including a refundable portion totaling \$10.6 million¹².

In tax filing year 2002, the Illinois EITC was claimed on approximately 647,000 returns for a total of \$51 million. Tax filing year 2003 returns processed to date indicate that 533,000 returns have claimed the Illinois EITC for a total of \$63.5 million, with nearly 80 percent of these including a refundable portion totaling \$10.6 million¹². The individual income tax refund fund, which supports tax expenditures such as the state EITC, also appears to be healthy as deposits to this fund increased from \$638 million in FY 2003 to an estimated \$942 million in FY2004. The projection for FY 2005 is \$965 million. The dramatic increase from FY 2003 to FY 2004 is the result of a statute requiring 11.7 percent (up from 8 percent) of gross receipts from the individual income tax to be deposited into the refund fund.

Community Health and Prevention

By investing in prevention programs now, Illinois can save money in the long term. DHS runs a number of prevention programs and grants that support community health, decreasing the need for future spending on, for example, health care and special education. Four of these programs are discussed here.

**Table 7. Community Health and Prevention Funding:
FY 2004 & 2005 (in millions of dollars)**

Program Area (DHS)	FY 2004 Approp	FY 2005 Proposal	% Change
Early Intervention ^a	64.4	64.4	0.0
Healthy Families Illinois	9.7	9.7	0.0
Parents Too Soon	10.9	10.9	0.0
Intensive Prenatal Performance Project (IPPP)	2.5	3.3	30.0

a. Totals reflect state appropriations to the Early Intervention Revolving Fund. Federal Medicaid and Early Intervention dollars are also available.

Illinois' Early Intervention (EI)

services help prevent or alleviate developmental delays and disabling conditions in children so that they can enter school ready to learn. Currently, the Department of Human Services runs EI but the state appropriates EI funds to ISBE, which transfers funds to DHS as needed. For FY 2005, the Governor recommends that the EI program be transferred from ISBE to DHS. The recommended appropriation of state funds remains flat for FY 2005 at \$64.4 million, the same as for FY 2004. For FY 2005, the Governor recommends that Healthy Families Illinois, a home-visiting program that provides parenting support services for more than 3,000 families, remain level-funded with a \$9.7 million appropriation. The budget proposal also recommends level funding for Parents Too Soon, a pregnancy prevention and parenting support program for teens, at \$10.9 million. The Intensive Prenatal Performance Project, a program that offers intensive services to women with the most at-risk pregnancies, gets a significant boost in funding to \$3.3 million in FY 2005 from \$2.5 million in FY 2004.

Intervention for Children at Risk

The Illinois Department of Children and Family Services (DCFS) protects child well-being by intervening when children experience the threat of or actual harm. The agency's total budget recommendation for FY 2005 reflects a 4.3 percent decrease in funding relative to FY 2003.

**Table 8. DCFS Program Funding:
FY 2004 & 2005 (in millions of dollars)**

Program Area (DCFS)	FY 2004 Approp	FY 2005 Proposal	% Change
DCFS Total ^a	1,469.3	1,406.2	-4.3
Protective Services	81.9	79.3	-3.2
Family Support	42.6	38.6	-9.4
Foster Care	316.5	299.7	-5.3
Institution/Group Homes	218.2	184.7	-15.3
Adoption	293.4	297.5	1.4

a. Both FY 2004 and FY 2005 appropriations include Orphanage Act funding.

This year's budget proposal includes the transfer of the Orphanage Act

from ISBE to DCFS. This program provides full tuition reimbursement for students who attend public school and are placed in a residence for the purpose of care/custody, welfare, medical/mental health treatment, rehabilitation or protection by an Illinois public agency with responsibility for the students. This program was funded at \$112.0 million for FY 2004 and has a recommended appropriation of \$123.5 million for FY 2005. Both the FY 2004 and FY 2005 appropriation totals in Table 8 include the Orphanage Act.

Budget changes for individual program areas reflect an ongoing decline in the number of foster care and child custody cases. Foster care placements are expected to decline from 16,769 in FY 2004 to 16,040 in FY 2005, a drop of 4.3 percent (729). Residential placements are expected to

drop even more dramatically from 1,475 in FY 2004 to 1,125 in FY 2005, a drop of 23.7 percent (350). As a consequence, funding for both foster care and institution/group home programs have recommended reductions of 5.3 and 15.3 percent, respectively, in the FY 2005 budget. Expected growth in the number of adoptions and guardianships, on the other hand, results in a recommended increase (1.4 percent) in appropriations for adoption and guardianship services.

The Governor recommends a 9.4 percent decrease in funding for family support services, from \$42.6 million for FY 2004 to \$38.6 million for FY 2005. The Governor also recommends a 3.2 percent decrease in funding for the child protective services considered in this analysis, down from \$81.9 million for FY 2004 to \$79.3 million for FY 2005.

Out-of-School Time and Community Schools

Teen REACH and Summer Bridges, two important state-funded community school and out-of-school time programs, remain level-funded in the Governor's FY 2005 budget proposal. Teen REACH offers prevention-focused, out-of-school time activities to high-risk 6- to 17-year-olds. This program was cut by \$600,000 in the Governor's FY 2004 budget, but the legislature overrode his veto and restored the funds during the November veto session. Summer Bridges provides students at risk of academic failure in preK through sixth grade with a concentrated curriculum on reading and writing during the summer. Three other out-of-school time programs – Project Success, Safe to Learn, and the Parent Involvement Campaign – were eliminated between FY 2002 and FY 2003 (See Appendix B, Table 18). The Governor has identified restoring Project Success as a priority in his education plan, but without a specific appropriation in the FY 2005 proposal (See Table 5).

The 21st Century program is funded entirely by the U.S. Department of Education through the No Child Left Behind Act – Title IV. This program provides grants to school districts as well as to faith- and community-based organizations for implementing out-of-school time programs. Estimated expenditures for FY 2005 are \$41.0 million, an increase of 4 percent over FY 2004.

**Table 9. Community School Funding:
FY 2004 & 2005 (in millions of dollars)**

Program Area (Department)	FY 2004 Approp	FY 2005 Proposal	% Change
Teen REACH (DHS)	19.9	19.9	0.0
Summer Bridges (ISBE)	24.7	24.7	0.0
21 st Century (ISBE) ^a	39.5	41.0	4.0
a. 21 st Century totals reflect estimated expenditures rather than appropriations. Data are from the U.S. Dept. of Education.			

Department of Corrections

The Department of Corrections' total budget is decreased by 5.2 percent in the Governor's FY 2005 recommendation. Both the total adult population and the juvenile facility population have increased in the past year, up to 43,942 and 1,576 respectively. The Governor proposes a decrease of 4.7 percent in funding for the adult division of DOC and an 18 percent decrease for the juvenile

**Table 10. Corrections Funding:
FY 2004 and 2005 (in millions of dollars)**

Program Area (Department)	FY 2004 Approp	FY 2005 Proposal	% Change
DOC Total	1,416.7	1,342.9	-5.2
Adult Division (DOC)	940.4	896.7	-4.7
Juvenile Division (DOC)	112.0	91.8	-18.0
Mental Health/Juvenile Justice Programs (DHS)	14.8	14.8	0.0

division of DOC. These decreases are largely due to the Governor's proposed closing of the Vandalia adult facility and the St. Charles juvenile facility, shifting their populations to other facilities. The Sheridan Correctional Center, reopened in January 2004 as a substance-abuse treatment facility, receives a \$25.5 million boost in the Governor's proposal to provide full-year funding for staffing and operations. The Kewanee Youth Center, which specializes in serving youth in the correctional system with mental health or substance abuse issues, will also fully open with an additional 180 treatment beds and an additional \$1.3 million in funding under the Governor's proposal.

Appendix A: Balancing the Budget

Governor's Office of Management and Budget's Walk-up from FY 2005 Budget Deficit of \$1.7 Billion to a Balanced Budget (\$ in millions)

Beginning FY 05 Deficit		\$(1,703)
(Part 1)		
Revenue Adjustments		
Base Revenues:		
Personal Income Tax	\$157	
Corporate Income Tax	\$28	
Sales Tax	\$91	
Public Utility Tax	\$11	
Gaming Adjustment	\$15	
Other Base Revenue Adjustments	\$(22)	
Total Base Revenue Growth		\$280
New Revenue Enhancements:		
Federal Reimbursement on Retirement	\$80	
DHS Fee for Service	\$60	
New Federal Revenues		\$140
Fund Transfers	\$40	
FY 2004 Portion of Hospital Assessment	\$80	
Sale of Assets	\$50	
New One-Time Revenues & Transfers		\$170
Loophole Closings	\$400	
Tax Redistributions	\$71	
User Fees	\$57	
Additional Revenues	\$107	
New On-Going Revenues		\$635
Total New Revenue Enhancements		\$945
Total Revenue Adjustments		\$1,225
Net Surplus/(Deficit) After FY 05 Revenues		\$(478)

(Part 2)
Spending Adjustments

Additional Spending:

K-12 Education Accountability (includes \$175M in original FY 05 Plan)	\$(400)
Transfer to "Rainy Day" Fund	\$(50)
Public Transportation Transfers	\$(30)
Additional Spending Increases	\$(20)
Additional Transfers Out	\$(15)

Total Additional Spending **\$(515)**

Expenditure Reductions:

Agency Cost Savings from Projections:

Corrections Reorganization	\$120
DHS Cost Savings	\$120
CMS Group Health Insurance Cost Savings	\$100
Higher Education Cost Savings	\$55
State Police Consolidation and Reorganization	\$28
Public Aid Savings	\$10
Natural Resources Savings	\$10
Other Agency Cost Savings	\$22

Total Agency Cost Savings* **\$465**

(\$55M of above relates to State Employees' Retirement System Pension Obligation Bond Savings of \$215M)

Pension Contribution Savings

Teachers' Retirement System Additional Pension Obligation Bond Savings	\$115
State Universities Retirement System Additional Pension Obligation Bond Savings	\$35
Judges' Retirement System and General Assembly Retirement System Additional Pension Obligation Bond Savings	\$10

Total Pension Contribution Savings* **\$160**

*(State Employees' Retirement System additional Pension Obligation Bond Savings are shown within the individual agencies)

Debt Financing Savings **\$130**

Incremental Additional Initiative Savings	\$60
Targeted Headcount Savings	\$25

Total Cost Savings Initiatives **\$85**

*Reallocation of K-12 funding in original FY 05
plan to Education Accountability as noted above* **\$175**

Total Expenditure Reductions **\$1,015**

Net Expenditure Reductions/(Additions)	\$500
---	--------------

Net Surplus/(Deficit) After FY 05 Expenditure Reductions	\$23
---	-------------

Appendix B: Historical Funding Trends

**Table 11. General Funds Appropriations
FY 2002-FY 2004, FY 2005 Proposal (in billions of dollars)**

FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change	FY '02-'05 % Change
23.41	22.26	23.22	23.96	7.8	2.3

**Table 12. Appropriations by Department
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)¹**

Department	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
ISBE	7,398	8,076	7,999	7,000	7,446	7,940	6.63
TRS ^a				1,052	1,097	914	-16.75
DPA	6,932	7,735	8,047	9,078	10,184	11,999	17.82
DHS	4,467	4,793	5,004	4,995	5,137	5,246	2.12
DCFS	1,403	1,412	1,433	1,495	1,469	1,406	-4.30
DPH	229	265	329	317	349	355	1.53
DOC	1,244	1,349	1,449	1,355	1,417	1,343	-5.21

a. The Teachers Retirement System was included as part of the ISBE budget prior to FY 2004. In the FY 2005 budget book, it is separated out and this is reflected in the FY 2003, FY 2004 and FY 2005 ISBE figures.

**Table 13. Select PreK-12 ISBE Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
ISBE Total ^a	7,397.8	8,076.1	7,998.8	7,000.1	7,446.4	7,939.9	6.63
General Funds ^a	5,606.3	5,919.3	6,226.5	4,965.2	5,297.4	5,693.7	7.48
Federal Funds	1,553.2	1,925.6	1,623.0	1,952.1	2,073.8	2,216.7	6.89
General State Aid ^b	2,982.6	3,005.0	3,266.4	3,206.3	3,484.2	3,484.2	0.00
Early Childhood Block Grant ^c	170.2	180.2	184.2	183.5	213.3	213.3	0.00
Pre-Kindergarten ^d	156.6	165.8	169.4	168.8	196.2	196.2	0.00
Universal Preschool ^e	NA	NA	NA	5.2	0.0	0.0	0.00
Special Education (state funds) ^f	679.2	726.0	699.5	689.8	741.5	750.3	1.18
Preschool-Special Education (federal funds) ^g	25.0	25.0	25.0	25.0	25.0	25.0	0.00
Charter Schools ^{c,h}	14.5	15.5	14.5	11.5	8.2	6.2	-24.09
Literacy Programs (state funds) ^{c,i}	85.9	87.4	88.0	79.2	79.1	79.1	0.00

a. Teachers Retirement System funds not included from FY 2003 forward.

b. General State Aid includes hold harmless.

c. From FY 2003 forward, grant operations appropriations are not included as part of the grant total.

d. PreKindergarten represents 92 percent of the Early Childhood Block Grant for FY 2000-2003 and 89 percent for FY 2004 and FY 2005. The remaining 8 and 11 percent reflect the birth to three mandatory set aside. Totals do not include administrative costs.

e. The \$5.2 million appropriated in FY 2003 was folded in the Early Childhood Education Block Grant for FY 2004.

f. The Special Education appropriation figure here includes seven line items: Children with Low-Incidence Disabilities, Extraordinary Services, Orphanage Tuition, Personnel Reimbursement, Phillip Rock Center, Private Tuition and Summer School. The appropriations listed here do not include federal funds or Corey H. Compliance, a Chicago-based special education program that was eliminated in FY 2003.

g. This preschool funding comes from the federal Individuals With Disabilities Education Act.

h. The Charter School figure includes Charter Schools (state), Charter Schools (federal) and the Charter Schools Revolving Loan Fund.

i. Literacy Programs include the Reading Improvement Block Grant, the Reading Improvement Statewide program (eliminated in FY 2003) and the Family Literacy program (eliminated in FY 2004).

**Table 14. Select Child Care Appropriations
FY 2000-FY 2004, FY 20045 Proposal (in millions of dollars)**

Program Area (Department)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
Child Care (DHS)^a	545.7	656.6	657.6	611.2	666.0	693.5	4.14
Child Care (DCFS)^b	25.3	26.0	26.1	25.1	25.1	21.1	-15.93

a. Child Care in DHS includes the following line items: Child Care Services (General Revenue and Federal Funds), Child Care Services Personnel (from the DHS FY 2005 Budget Briefing Book - comprised of personal services, retirement pickup, retirement, social security, group insurance, contractual, travel, commodities, printing, and equipment), Great Start (General Revenue and Federal Funds) and Migrant Day Care Services (Federal Funds). The total does NOT include the Donated Funds Initiative (\$22.39 million every year between FY 1998 and the FY 2005 proposal).
b. Child Care in DCFS includes Protective/Family Maintenance and Day Care Infant Mortality. DCFS child care does not include administrative costs.

**Table 15. Select Health and Income Support Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area (Department)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
TANF (DHS)^a	331.6	263.8	206.9	154.9	115.5	115.5	0.00
Medical Assistance (DPA)^b	6,040.0	6,775.3	7,625.0	8,355.4	9,554.5	11294.2	18.2
Child Support Enforcement (DPA)	255.5	175.1	233.1	226.1	214.4	205.5	-4.14
Emergency Assistance (DHS)^c	2.0	1.0	1.0	0.98	0.98	0.98	0.00
Emergency Food and Shelter (DHS)^d	9.5	9.7	9.8	9.7	9.7	9.7	0.00
Emergency Food (DHS)^d	2.9	2.9	2.9	5.28	5.28	5.28	0.00

a. The TANF appropriation does not include administrative costs.
b. This includes Medical Assistance appropriations at the Department of Public Aid except: the Excellence in Academic Medicine Act, Medical Care: Chronic Renal Disease, Medical Care: Sexual Assault Victims, and Medical Care: Hemophilia. Medical Assistance includes both state and federal matching funds. During FY 2002 midyear cuts, Medicaid experienced \$224 in budget cuts through hospital and provider reimbursement rate decreases.
c. During FY 2002 midyear budget cuts, Emergency Assistance was reduced to \$500,000. This total does not include administrative costs.
d. FY2000-FY2002 data are from DHS. FY2003-2005 data are from the FY2005 Budget Book.

**Table 16. Select Community Health and Prevention Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area (DHS)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
Early Intervention ^a	67.0	95.7	80.9	64.4	64.4	64.4	0.0
Healthy Families Illinois ^b	6.8	8.8	9.7	9.7	9.7	9.7	0.0
Parents Too Soon ^c	10.2	10.8	11.0	10.9	10.9	10.9	0.0
Intensive Prenatal Performance Project (IPPP)	0.0	2.0	2.5	2.5	2.5	3.25	30.0

a. Early Intervention totals reflect estimated expenditures for FY 2000 through FY 2002. Total funding for EI is made up of the state appropriation to ISBE, federal Early Intervention dollars and Medicaid dollars (starting in FY 2001). Source: Department of Human Services. Totals for FY 2003 through FY 2005 reflect state appropriations to the Early Intervention Revolving Fund. From FY 2002 through FY 2004, state funding for Early Intervention (EI) was appropriated to the Illinois State Board of Education and then transferred to the Illinois Department of Human Services as needed. Prior to this and in the FY 2005 budget proposal, all funding was allocated to DHS.

b. During FY 2002 midyear budget cuts, Healthy Families Illinois (HFI) funding was reduced by approximately \$300,000, taking the FY 2002 budget to \$9.4 million.

c. During FY 2002 midyear budget cuts, Parents Too Soon Funding was reduced by \$54,000 to \$10.9 million.

**Table 17. Select Intervention for Children at Risk Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area (DCFS)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
DCFS Total	1,403.0	1,412.0	1,433.4	1,495.3	1,469.3	1,406.2	-4.30
Protective Services ^a	66.4	69.9	76.5	78.7	81.9	79.3	-3.30
Family Support ^b	33.5	33.6	43.3	42.6	42.6	38.6	-9.31
Foster Care ^c	449.5	410.0	382.5	343.1	316.5	299.7	-5.31
Institution/Group Homes ^d	268.9	264.9	253.9	237.4	218.2	184.7	-15.35
Adoption ^e	171.9	216.5	255.6	268.5	293.4	297.5	1.40

a. The Protective Services funding covered here includes Child Protection Administration (operations), Child Protection Downstate, Child Protection Cook, Purchase of Children's Services and Children's Advocacy Centers.

b. Family Support includes the Family Preservation Program and Family Centered Services Initiative line items.

c. Foster Care includes Foster Care Homes and Specialized Foster Care. Administrative costs are not included.

d. Institution/Group Homes covers the Group Home Care and Prevention line item. Administrative costs are not included.

e. Adoption covers Adoption and Guardianship Services. Administrative costs are not included.

**Table 18. Select Out-of-School Time and Community School Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area (Department)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
Teen REACH (DHS) ^a	13.5	19.8	20.0	19.9	19.9	19.9	0.0
Project Success (DHS) ^b	3.8	3.8	3.8	0.0	0.0	0.0	0.0
Safe to Learn (IVPA) (actual expenditures) ^c	13.0	13.1	13.9	0.0	0.0	0.0	0.0
Summer Bridges (ISBE)	13.0	23.0	26.0	24.8	24.7	24.7	0.0
21 st Century (ISBE) ^d	0.0	0.0	12.5	22.8	39.5	41.0	4.0
Parent Involvement Campaign (ISBE)	0.5	1.5	1.5	0.9	0.0	0.0	0.0

a. During FY 2002 midyear budget cuts, the Teen REACH appropriation was reduced by \$400,000 to \$19.6 million.
b. During FY 2002 midyear budget cuts, the Project Success appropriation was reduced by \$1.1 million to \$2.7 million. The Governor has listed Project Success as a FY 2005 funding priority at \$5 million (see Table 5), but has not provided appropriations in his proposal.
c. During FY 2002 midyear budget cuts, the Safe to Learn appropriation was reduced by \$1.7 million to \$12.2 million.
d. During FY 2002 midyear budget cuts, the Parent Involvement Campaign's funding was reduced by \$500,000 to \$1.0 million.

**Table 19. Select Corrections Appropriations
FY 2000-FY 2004, FY 2005 Proposal (in millions of dollars)**

Program Area (Department)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Proposed	FY '04-'05 % Change
DOC Total	1,244.4	1349.1	1448.7	1355.1	1416.7	1342.9	-5.21
Adult Division (DOC)	845.9	904.4	958.1	894.5	940.4	896.7	-4.65
Juvenile Division (DOC)	82.4	103.3	121.7	107.6	112.0	91.8	-18.01
Mental Health/ Juvenile Justice Programs (DHS)	7.9	13.0	15.0	15.0	14.8	14.8	0.00

Appendix C: Transfers from ISBE

Table 20. Recommended Transfers from ISBE for FY 2005				
Program	Transferred To:	Appropriations (in millions of dollars)		% Change
		FY 2004	FY 2005	
Early Intervention ^a	DHS	64.4	64.4	0.0
Regional Safe Schools	DHS	17.1	17.0	-0.6
Truants Alternative and Optional Education Program	DHS	15.7	15.6	-0.6
Orphanage Act (Regular and Special Education Reimbursement)	DCFS	112.0	123.5	10.2
a. Early Intervention totals reflect state appropriations to the Early Intervention Revolving Fund.				

ENDNOTES

¹ Illinois Department of Employment Security, February 2004 data

² Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd edition. January 2003.

³ Federal approval of this plan is pending.

⁴ Illinois State Operating Budget, Fiscal Year 2005, p. 1-20

⁵ Illinois State Board of Education FY 2005 Budget Proposal

⁶ Illinois State Board of Education FY 2005 Budget Proposal

⁷ Illinois State Operating Budget, Fiscal Year 2005, p. 2-2

⁸ Illinois State Capital Budget, Fiscal Year 2005, p. 31

⁹ U.S. Census Bureau, Poverty in the United States: 2002, September 2003.

¹⁰ U.S. Census Bureau, Low Income Uninsured Children by State, October 2002 and October 2003.

¹¹ Illinois Department of Public Aid figures, March 2004. These totals represent combined state and federal liability.

¹² Illinois Department of Revenue, March 2004.