

CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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Fiscal Year 2004 Budget Wrap-Up

Governor Blagojevich entered his first term in office with a daunting task, fill a \$5 billion budget hole without a general tax increase – a promise he made time and again on the campaign trail. The Governor stuck to his promise and closed the gap through a combination of one-time revenues, on-going tax and fee increases, administrative reforms and spending cuts.

General Funds appropriations in this budget total \$23.344 billion, an increase of 4.7% over the fiscal year 2003 budget level. This includes the additional \$153 million the General Assembly tacked onto the Governor's recommended appropriations for education (\$101 million), higher education (\$27 million), governmental services (\$3 million), Medicaid/health and human services (\$13 million) and public safety (\$9 million).

How are we paying for these increases while also closing the budget hole? This year, the state is relying heavily on one-time revenue enhancements. In fact, two-thirds of the budget, \$2.408 billion, is one-time hits while only one-third, \$1.350 billion, is on-going. Tables 1 and 2 outline these revenue sources.

Table 1. One-Time Revenues in the FY2004 Budget (Millions)

Riverboat Gaming Tax Adjustments		
	Sale of 10th License (net) (SB1607)	\$ 350
Sin Tax Adjustments		
	Repeal Cig. Stamp Deposit Delay for Purchases (SB 774)	\$ 50
Assets Sales and Leasebacks		
	Sale of land at Elgin Mental Health Center	\$ 3
	Sale of Toll Highway building	\$ 30
	Thompson Center sale - leaseback	\$ 200
	Sales/Leasebacks Total (SB 719)	\$ 233
Fund Chargebacks		
	ICECF Fund Reallocation	\$ 125
	Additional Fund Sweeps	\$ 10
	Fund Chargebacks Total (SB 1903)	\$ 135
	Tax Amnesty (SB 969)	\$ 40
	Pension Obligation Bonds (HB2660)	\$ 1,600
	TOTAL ONE-TIME REVENUES IN FY 04	\$ 2,408

Table 2. On-Going Revenues in the FY2004 Budget (Millions)

Exemption Adjustments		
Net Operating Loss Deduction (FY05 estimate is \$10M)	\$ 0	
Corporate Standard Exemption	\$ 5	
Replacement Taxes paid credit	\$ 7	
Foreign Insurer Rate Reduction	\$ 4	
Life & Health Insurance Guarantee Association Tax Offset	\$ 13	
Training Expense Credit	\$ 14	
Research and Development Credit	\$ 15	
Income Tax Exemption Total (SB 1634)		\$ 58
Coal, Oil and Distillation Machinery and Equipment	\$ 1	
Replacement Vehicles Exemption	\$ 2	
Pollution Control Facilities Exemption	\$ 3	
Vending Machine Exemption	\$ 3	
Graphic Arts Machinery and Equipment	\$ 4	
Sales Tax Compliance Out-of-State Collections	\$ 5	
Dealer Licensing Fee	\$ 5	
Limo & Taxi Interstate Commerce Loophole	\$ 10	
Manufacturer's Purchase Credit	\$ 20	
Non-Commercial Aircraft Exemption	\$ 26	
Commercial distribution fee / Rolling Stock Exemption*	\$ 82	
Sales Tax Exemption Total (SB 842)		\$ 161
Additional Exemptions		
Natural Gas Exemption (SB 1733)	\$ 40	
Estate Tax Decoupling (initial year) (SB 1725)	\$ 106	
Additional Exemptions Total		\$ 146
Sin Tax Adjustments		
Riverboat Admissions Increase	\$ 37	
20% Surcharge on Riverboats w/ AGR over \$250 Million	\$ 49	
Tax schedule adjustment	\$ 115	
Gaming Adjustments Total (SB 1606)		\$ 201
Increase State Liquor License Fee	\$ 7	
Increase State Liquor Tax Compliance	\$ 32	
Other Adjustments Total (SB 774)		\$ 39
Fund Chargebacks & Sweeps		
Additional Federal Match	\$ 2	
Downstate Emergency Response Fund Transfer	\$ 5	
State Finance Authority Surplus Transfer	\$ 7	
Fund Chargeback	\$ 422	
Fund Chargebacks & Sweeps Total (SB 1903)		\$ 436
Fee Increases (SB 1903)		\$ 309
TOTAL ON-GOING REVENUES IN FY 04		\$ 1,350
* This is the only exemption in the sales tax category from SB 841 – all others are from SB 842		

FY2004 Budget Breakdown

Budget Deficit Projection	\$5,186.0
FY2003 Deficit Reduction	
<ul style="list-style-type: none"> • Pension Bond Proceeds Reimbursement • Reduced Supplemental Pressures • Administrative Cuts and Reserves • Other One-Time 	\$ 300.0 \$ 283.0 \$ 202.0 \$ 144.0 \$ 929.0 TOTAL
FY2004 Deficit Reduction	
<ul style="list-style-type: none"> • Pension Bond Proceeds Transfer • On-Going • Additional One-Time • Revenue in excess of deficit projection • Governor's Initiatives, Reserves and Administrative Cuts 	\$1,600.0 \$1,320.0 \$ 705.0 \$ 419.0 \$ 407.0 \$4,451.0 TOTAL
Total Deficit Reduction	\$5,380.0
FY2004 Projected Ending Cash Balance	\$ 194.0

While this year's gap was closed through creative measures, the reliance on one-time revenue sources ensures the state will experience a significant budget deficit next year, in excess of \$2 billion. Recognizing the pressures imposed on the budget by costs such as healthcare, energy and labor, which exceed the rate of inflation, coupled with the current reliance on one-time revenue sources and cost savings, should compel decision makers to implement some long-term, structural reforms to the state's fiscal system.

Putting the state on sound fiscal footing will require a thorough examination of the state's existing revenue sources (i.e. taxes) and their inability to continue funding current spending levels into the future. Unless the state wants to reduce significantly funding for schools, healthcare, public safety and other essential services, serious consideration will have to be given to increasing the income tax and expanding the sales tax base to include services.

The choice is simple, either create a fiscal system that both generates adequate revenue in a sound and fair manner and promotes economic growth for all Illinoisans, or face repeated fiscal crises in the future.