

# CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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## The Illinois FY2005 Budget – Difficult Times Ahead

After a record breaking overtime session, the FY2005 budget was signed into law on July 30, 2004. General Funds appropriations in the budget total \$23.684 billion, and total appropriations for all funds total \$46.036 billion.

### Appropriations

General Funds Appropriations total \$23.684B, representing a nominal increase of \$231 million over FY2004. However, as illustrated in Table 1, after adjusting for inflation this represents a decrease of 2%, or \$521M, from FY2004 levels.

**Table 1. FY2004 vs. FY2005 General Funds Appropriations**

	Enacted Approp. FY2004	Inflation Adjusted FY2004	Enacted Approp. FY2005	\$ Change FY04ia-FY05	% Change FY04ia-FY05
<b>General Funds</b>	\$23,384,938,600	\$24,205,749,945	\$23,684,430,400	-\$521,319,545	-2%

Source: Illinois Economic and Fiscal Commission Fiscal Year 2005 Budget Summary

In fact, when federal and other state funds are taken into consideration, only the Department of Public Aid, the State Board of Education and the Environmental Protection Agency realized a net increase over FY2004 levels.

**Table 2. FY2004 vs. FY2005 Appropriations by Major Agency**

		Enacted Approp FY04	Inflation Adjusted FY04	Enacted Approp FY05	\$ Change FY04ia-FY05	% Change FY04ia-FY05
<b>Operating</b>	GRF	\$23,384,938,600	\$24,205,749,945	\$23,684,430,400	-\$521,319,545	-2%
<b>Budget</b>	OSF*	\$20,746,253,900	\$21,474,447,412	\$16,877,766,100	-\$4,596,681,312	-21%
	Fed	\$5,851,060,800	\$6,056,433,034	\$5,473,315,600	-\$583,117,434	-10%
	<b>TOTAL</b>	\$49,982,253,300	\$51,736,630,391	\$46,035,512,100	-\$5,701,118,291	-11%
<b>DHS</b>	GRF	\$3,702,976,900	\$3,832,951,389	\$3,768,636,000	-\$64,315,389	-2%
	OSF	\$430,217,000	\$445,317,617	\$429,126,600	-\$16,191,017	-4%
	Fed	\$910,756,300	\$942,723,846	\$928,728,700	-\$13,995,146	-1%
	<b>TOTAL</b>	\$5,043,950,200	\$5,220,992,852	\$5,126,491,300	-\$94,501,552	-2%
<b>DPA</b>	GRF	\$5,705,080,400	\$5,905,328,722	\$6,041,801,500	\$136,472,778	2%
	OSF	\$4,244,897,400	\$4,393,893,299	\$5,737,168,400	\$1,343,275,101	31%
	Fed	\$0	\$0	\$0	\$0	0%
	<b>TOTAL</b>	\$9,949,977,800	\$10,299,222,021	\$11,778,969,900	\$1,479,747,879	14%
<b>DPH</b>	GRF	\$117,159,000	\$121,271,281	\$124,707,000	\$3,435,719	3%
	OSF	\$64,664,000	\$66,933,706	\$65,902,300	-\$1,031,406	-2%
	Fed	\$165,872,200	\$171,694,314	\$168,894,400	-\$2,799,914	-2%
	<b>TOTAL</b>	\$347,695,200	\$359,899,302	\$359,503,700	-\$395,602	0%
<b>DOC</b>	GRF	\$1,270,028,900	\$1,314,606,914	\$1,191,201,600	-\$123,405,314	-9%
	OSF	\$147,109,000	\$152,272,526	\$168,239,000	\$15,966,474	10%
	Fed	\$0	\$0	\$0	\$0	0%
	<b>TOTAL</b>	\$1,417,137,900	\$1,466,879,440	\$1,359,440,400	-\$107,439,040	-7%

<b>ISBE**</b>	GRF	\$5,509,166,800	\$5,702,538,555	\$5,808,459,800	\$105,921,245	2%
	OSF	\$76,210,000	\$78,884,971	\$31,441,700	-\$47,443,271	-60%
	Fed	\$2,073,806,000	\$2,146,596,591	\$2,219,314,800	\$72,718,209	3%
	TOTAL	\$7,659,182,800	\$7,928,020,116	\$8,059,216,300	\$131,196,184	2%
<b>DCFS</b>	GRF	\$819,432,800	\$848,194,891	\$780,947,400	-\$67,247,491	-8%
	OSF	\$520,586,000	\$538,858,569	\$480,774,100	-\$58,084,469	-11%
	Fed	\$17,883,000	\$18,510,693	\$18,367,600	-\$143,093	-1%
	TOTAL	\$1,357,901,800	\$1,405,564,153	\$1,280,089,100	-\$125,475,053	-9%
					\$0	
<b>Natural Resources</b>	GRF	\$109,901,300	\$113,758,836	\$92,380	-\$113,666,456	-100%
	OSF	\$482,796,300	\$499,742,450	\$118,149,900	-\$381,592,550	-76%
	Fed	\$26,274,000	\$27,196,217	\$7,611,300	-\$19,584,917	-72%
	TOTAL	\$618,971,600	\$640,697,503	\$218,141,500	-\$422,556,003	-66%
<b>EPA</b>	GRF	\$2,796,700	\$2,894,864	\$795,100	-\$2,099,764	-73%
	OSF	\$1,144,854,000	\$1,185,038,375	\$1,278,032,300	\$92,993,925	8%
	Fed	\$55,535,900	\$57,485,210	\$60,250,800	\$2,765,590	5%
	TOTAL	\$1,203,186,600	\$1,245,418,450	\$1,339,078,200	\$93,659,750	8%

\* Other State Funds are comprised of over 300 special state funds

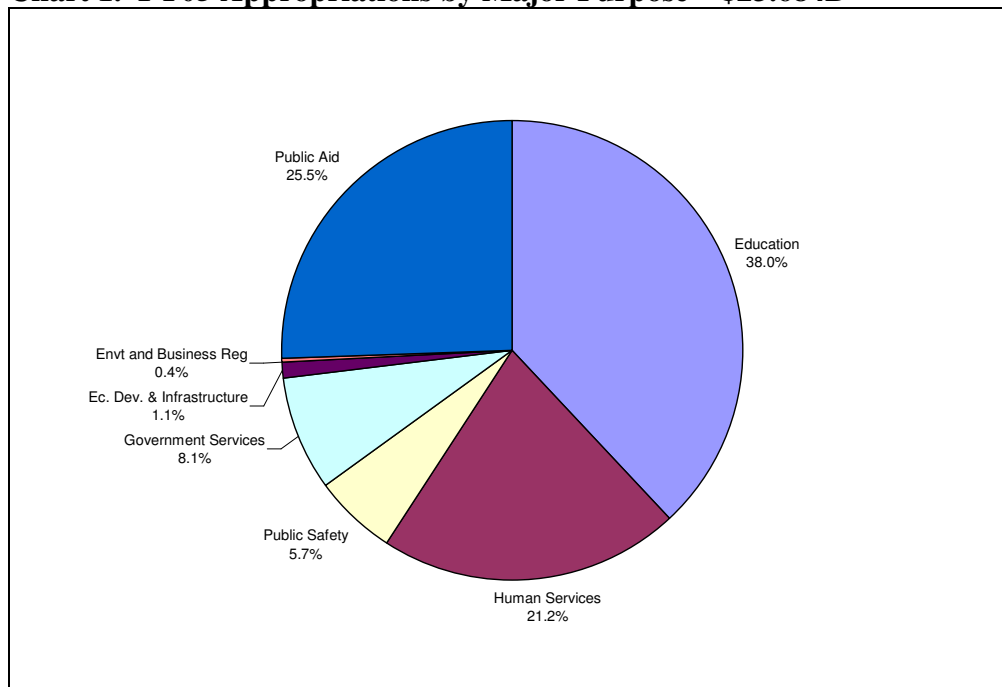
\*\* ISBE figure does not include the state's Teacher Retirement System

Source: Illinois Economic and Fiscal Commission Fiscal Year 2005 Budget Summary

### Where were the General Funds Appropriated?

- The largest share of General Funds appropriations (38%) went to education, followed by Public Aid (25.5%) and Human Services (21.2%)
- After adjusting for inflation, the Department of Human Services General Funds appropriation represents a 2% decrease from FY04 levels

**Chart 1. FY05 Appropriations by Major Purpose – \$23.684B**



### How Much Revenue Growth is Needed to Maintain FY04 Appropriation Levels in FY06?

- FY05 General Funds appropriations are already 2% lower than they were in FY05, resulting in program and service cuts around the state
- It is estimated that the state will need to appropriate an additional \$2.4B<sup>1</sup> to the General Funds in FY06 in order to maintain FY04 appropriation levels

**Table 2. Growth Needed to Maintain FY04 Appropriation Levels**

	Enacted Approp FY04	FY04 Inflation Adj to FY05	Enacted Approp FY05	\$ Change FY04ia-FY05	FY05ia Inflation Adj to FY06	Growth Needed FY05 to FY06
GRF	\$23,384,938,600	\$24,205,749,945	\$23,684,430,400	-\$521,319,545	\$25,055,371,768	\$1,892,260,913
OSF*	\$20,746,253,900	\$21,474,447,412	\$16,877,766,100	-\$4,596,681,312	\$22,228,200,516	\$9,947,115,728
Fed	\$5,851,060,800	\$6,056,433,034	\$5,473,315,600	-\$583,117,434	\$6,269,013,834	\$1,378,815,668
TOTAL	\$49,982,253,300	\$51,736,630,391	\$46,035,512,100	-\$5,701,118,291	\$53,552,586,118	\$13,218,192,308

### How Much GRF Revenue Growth is Needed to Maintain FY05 Appropriation Levels in FY06?

**Table 3. Growth Needed to Maintain FY05 Appropriation Levels**

	Enacted Approp FY05	FY05 Inflation Adjusted	Growth Needed FY05 to FY06
GRF	\$23,684,430,400	\$24,430,489,958	\$746,059,558

### How have General Funds Expenditures Changed over Time?

- While spending on education, health care and pensions have increased since FY95, all other areas realized a net decrease of \$454M during this same period

**Table 4. General Revenue Funds Expenditures by Category (M), 1995-2003<sup>2</sup>**

Category	FY1995 Actual	CPI Adjusted to FY2003	FY2003 Actual	\$ Difference '95 CPI Adjusted vs. '03 Actual	ECI Adjusted to FY2003	FY2003 Actual	\$ Difference '95 ECI Adjusted vs. '03 Actual
General Revenue Funds	15,499	17,450	21,894	4,444	20,502	21,894	1,392
K-12 Education	3,657	4,370	6,149	1,779	4,848	6,149	1,301
Health Care*	4,390	5,246	6,021	775	5,807	6,021	214
Pensions	150	179	525	346	198	525	327
GF without Health Care & Pensions	10,959	13,095	15,348	2,253	14,496	15,348	852
GF without Health Care, Pensions & Education	7,302	8,938	9,199	261	9,653	9,199	- 454

<sup>1</sup> This figure represents the \$521M cut to General Funds appropriations in FY05 plus the \$1.9B inflation adjusted FY04 appropriation figure.

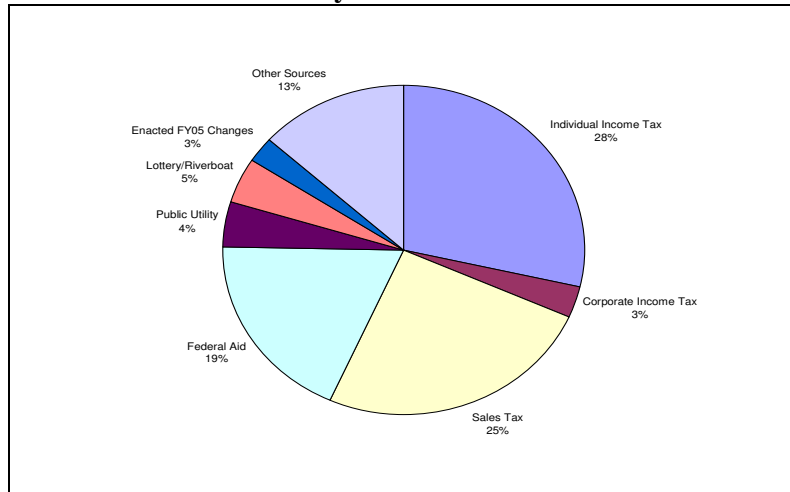
<sup>2</sup> Illinois Office of the Comptroller, *Fiscal Year 2003 Traditional Budgetary Report*, official audited state financial statements. Dollar figures are rounded to the nearest millionth. This chart illustrates "warrants issued" rather than "appropriations" as the base of analysis for state spending. Reason being that appropriations merely illustrate the amount of money the legislature gives agencies the authority to spend, while warrants issued illustrate how much of the authorized amount was actually spent by agencies in a particular fiscal year.

\* Medicaid and State Employees Health Insurance System.

## What Revenue Sources pay for the FY2005 General Funds Appropriations?

- The primary revenue sources feeding into the General Funds are the individual income tax (28%), sales tax (25%) and federal aid (19%)
- The FY2005 revenue estimate from all sources feeding into the General Fund is \$25.602B. This is a nominal decrease of \$1.447B, or 5.7%, from the FY2004 level of \$27.049B. After adjusting for inflation, this represents a decrease of 9%, or \$2.396B, from FY2004<sup>3</sup>

**Chart 2. FY05 Revenue by Source**



## Illinois Continues to Rely on One-Time Revenue Sources

A number of factors made it difficult for the General Assembly and Governor to craft the FY2005 budget, including revenue underperformance, increasing debt service expenses, increasing pension costs and continued pressure to fund priority areas such as education and health care.

To close the gap between revenues and expenditures this year, the state once again enacted unstable revenue tactics, including fund sweeps as well as the shifting of expenditures to both future fiscal years and other state funds.

**Table 5. One-Time Revenue Sources for GF's (M)<sup>4</sup>**

Revenue Source	FY2003	FY2004	FY2005
Fund Sweeps	\$165	\$154	\$260
Tax Amnesty		\$290	\$100
Pension Bond Sale	\$300	\$1,395	
Cigarette Tax Adjustment			\$50
Federal Fiscal Relief		\$750	
Sale of State Assets		\$233	
<b>Sub-Total</b>	<b>\$465</b>	<b>\$2,822</b>	<b>\$410</b>
Appropriation Adjustments			
Accelerated/Deferred Medical Payments			\$1,100
Restructure of ERI Pension Payment			\$200
Increase in State Pension Fund Approps			\$80
Increase in non-IDOT Road Fund Approps	\$95	\$145	\$145
<b>Sub-Total</b>	<b>\$95</b>	<b>\$145</b>	<b>\$1,525</b>
<b>TOTAL</b>	<b>\$560</b>	<b>\$2,967</b>	<b>\$1,935</b>

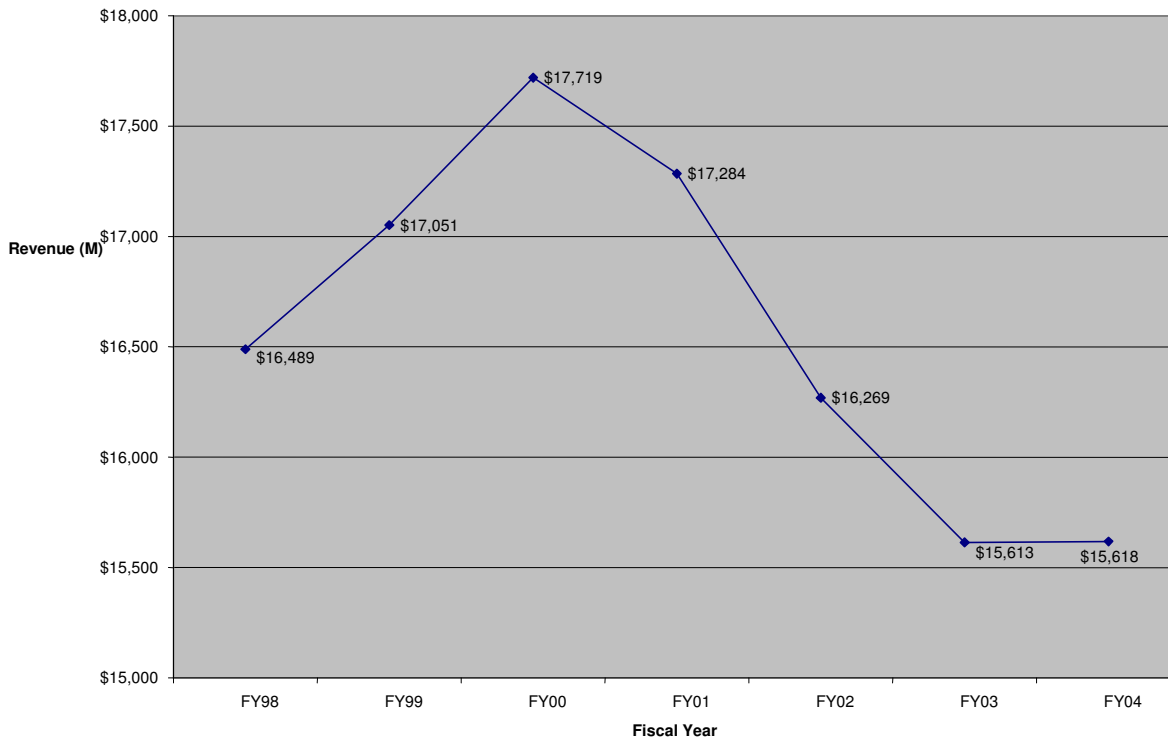
<sup>3</sup> Illinois Economic and Fiscal Commission Fiscal Year 2005 Budget Summary.

<sup>4</sup> Illinois Office of the Comptroller Fiscal Focus Quarterly September 2004

### Why does Illinois Rely so Heavily on One-Time Revenue Sources?

- Illinois' four primary taxes – personal and corporate income taxes, sales taxes and utility taxes – generate less revenue every year, because Illinois does not tax in a way that reflects the modern economy

**Chart 3. Reliance on 4 Primary Taxes (Inflation Adjusted)**



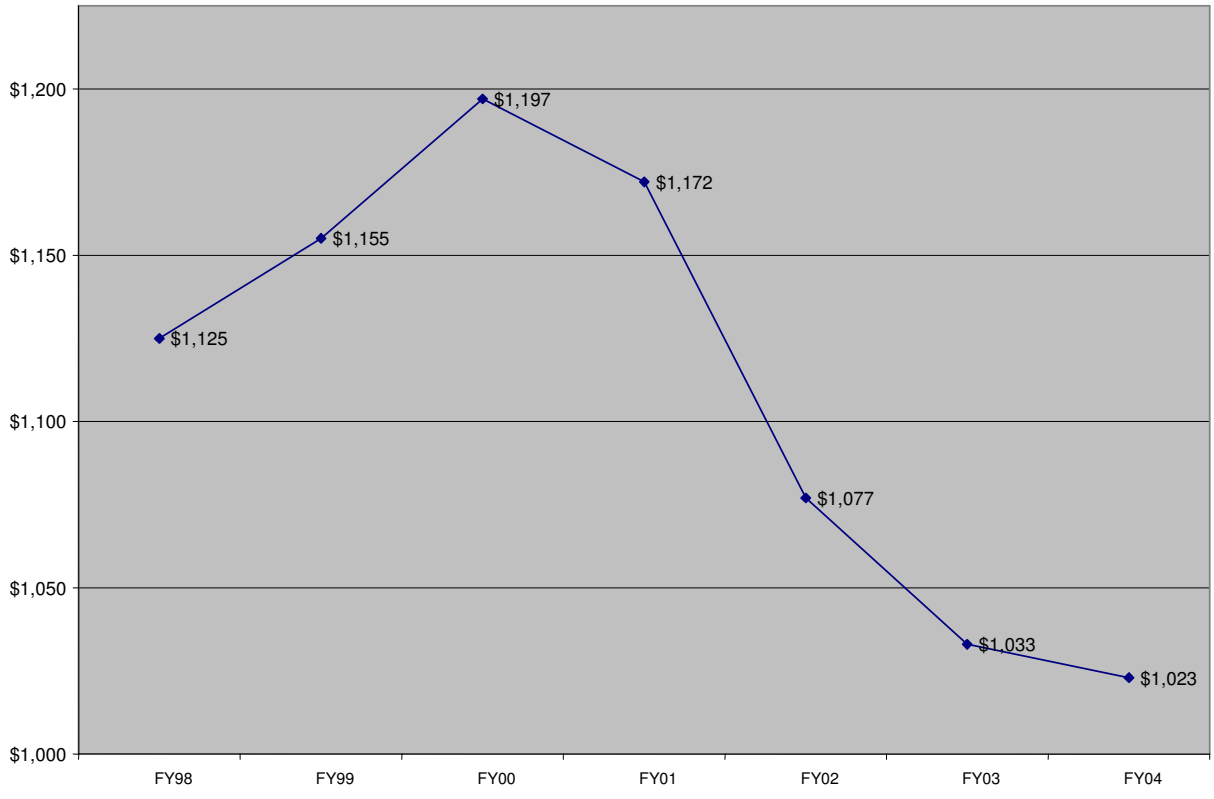
### What Impact does this have on Local Governments?

- Local governments receive revenue from the state through the Local Government Distributive Fund (LGDF). Since state revenues have been on the decline, LGDF revenues have fallen, as well

**Table 6. LGDF Revenue by Source (M) FY98-FY04**

	Individ Inc	LGDF	Corp Inc	LGDF	Sales Tax	LGDF	LGDF Total	Inflation Adj
1998	\$6,847	\$685	\$1,136	\$114	\$5,274	\$169	\$967	\$1,125
1999	\$7,226	\$723	\$1,121	\$112	\$5,609	\$179	\$1,014	\$1,155
2000	\$7,686	\$769	\$1,237	\$124	\$6,027	\$193	\$1,085	\$1,197
2001	\$7,996	\$800	\$1,036	\$104	\$5,958	\$191	\$1,094	\$1,172
2002	\$7,471	\$747	\$803	\$80	\$6,051	\$194	\$1,021	\$1,077
2003	\$7,341	\$734	\$738	\$74	\$6,059	\$194	\$1,002	\$1,033
2004	\$7,272	\$727	\$936	\$94	\$6,331	\$203	\$1,023	\$1,023

**Chart 4. LGDF Revenue (M) FY98-FY04 (Inflation Adjusted)**



### What does the Future Hold?

- It is estimated that the FY05 budget deficit is roughly \$3B, guaranteeing another record deficit for FY06

**Table 7. FY2005 Budget Deficit Estimate**

<b>FY04 Revenue Underperformance</b>	<b>FY04 Actual</b>	<b>GOMB Est</b>	<b>Diff from Actual</b>
State Taxes & Transfers	\$21,645	\$22,029	-\$384
Federal	\$5,189	\$4,987	\$202
SubTotal	\$26,834	\$27,016	-\$182
Refund Fund	-\$1,406	-\$1,357	-\$49
Pension Contrib Fund Transfer	\$1,395	\$1,600	-\$205
Budget Stab Fund Transfer	\$226	\$226	\$0
<b>TOTAL</b>	<b>\$27,049</b>	<b>\$27,485</b>	<b>-\$436</b>
<b>FY04 One-Time Revenue</b>			
Fund Sweeps			-\$154
Pension Bond Proceeds			-\$1,395
Sale of State Assets			-\$233
Tax Amnesty Revenue			-\$290
Federal Transfers			-\$750
Non-IDOT Road Fund Approps			- \$145
<b>TOTAL</b>			<b>-\$2,967</b>
<b>FY04 Total</b>			<b>-\$3,403</b>
<b>FY05 Revenue Growth</b>	<b>FY04 Actual</b>	<b>FY05 GOMB Est</b>	<b>Revenue Difference</b>
State Taxes & Transfers*	\$20,239	\$20,914	\$675
<b>FY05 Expenditure Increase</b>	<b>FY04 Actual</b>	<b>FY05 Enacted</b>	
	\$23,384	\$23,684	-\$300
<b>FY05 Deficit</b>			<b>-\$3,028</b>

\* Estimate includes state tax & transfer revenue, less the personal and corp income tax refund fund