

BUDGET & TAX POLICY INITIATIVE SPECIAL REPORT

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THE GOVERNOR'S FY 2004 BUDGET PROPOSAL: Investing in Children in Tough Times



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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.

About the Budget and 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.

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 2004, contact Emily Moiduddin at 312-516-5568 or emoiduddin@voices4kids.org.

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THE GOVERNOR'S FY 2004 BUDGET PROPOSAL:

Investing in Children in Tough Times

On April 9, 2003, Gov. Rod Blagojevich presented the fiscal year 2004 proposed budget—his first budget request—in the midst of a severe state fiscal crisis. That crisis is a combined deficit of \$5 billion across FY 2003 and FY 2004, a consequence of lower than expected revenues and natural spending pressures. In the face of the crisis, the governor's proposal maintains or expands investments in many important programs for children and families, and it includes a variety of cuts to programs and administrative costs with unclear consequences. A patchwork of revenue proposals support the governor's spending priorities.

In the end, the governor's proposal reduces overall spending by \$345 million while increasing spending from the state's general funds—the most critical funds for education, health care, human services and public safety programming. Those funds are home to the \$5 billion deficit. However, that increase does not restore most of the \$1.1 billion of general funds cuts made last spring when the FY 2003 budget was built.

Two Sides of the Budget Coin: Appropriations and Revenues

Appropriations

A governor generally builds the coming year's budget proposal on the present year's appropriations. In other words, the present year serves as a base on which to identify and shift the spending needs for the coming year. With the FY 2003 budget as a base, the Gov. Blagojevich directed state executive agencies to make significant cuts in administration (10 percent on average) and operations (8 percent). Five percent of state awards and grants were identified for reduction except for those related to education, health care, and public safety. The governor also reduced the number of agencies that report to him from 55 to 46.

Total appropriations fall from \$52.8 billion this fiscal year to \$52.4 billion for FY 2004. Of the 46 agencies

Table 1. Appropriations (in billions)	FY 2002 Approp	FY 2003 Approp	FY 2004 Proposal	% Change '03-'04
Total – All Funds	\$52.0	\$52.8	\$52.4	-1%
General Funds	\$23.4	\$22.3	\$23.1	4%

reporting to the governor, 33 experience budget cuts. The governor maintains or increases many investments in children, families and communities through increases in the state's general funds. The general funds act as the state's largest checking account and encompass most of the funding for education, health care, human services and public safety programming. Spending among these funds grows from a \$22.3 billion appropriation in FY 2003 to a \$23.1 billion proposal for FY 2004. Despite the overall increase, many programs supported by the general funds are cut in the budget proposal. Additionally, a portion of the FY 2004 increase reflects the state's attempts to pay bills within a shorter timeframe, rather than an increased investment. For example, an increase for the Department of Public Aid is aimed at paying Medicaid bills within 60 days and within the fiscal year, rather than the 90-120 day payment delays medical providers currently experience. The FY 2004 proposal also leaves many of the \$1.1 billion in cuts made in FY 2003 in place.

Revenues

Illinois' revenue performance remains dismal for two primary reasons. Not only do improvements in state revenues typically lag 12-18 months behind an economic turnaround, but Illinois' revenue structure is insufficient for meeting state spending needs over time, a situation referred to as structural deficit. Illinois' main general funds revenue sources—income and sales taxes—differ from the norm in three ways. This state has the lowest income tax rate for the highest income earners of any state in the nation except Pennsylvania; Illinois is one of only three states that entirely exempts public and private pension income from taxation; and the fiscal system levies a sales tax on only 17 of 164 categories of taxable services (primarily utilities), fewer than all but six other states.

Illinois Fiscal System Diverges from the Norm

- Lowest income tax rate for the highest income earners of any state in the nation except Pennsylvania
- One of only three states that entirely exempts public and private pension income from taxation
- Levies a sales tax on only 17 of 164 categories of taxable services (primarily utilities), fewer than all but six other states

The economic boom of the 1990s masked the inadequacies of our revenue sources, particularly for the general funds. That boom has now retreated to reveal the consequences of the structural deficit in the form of a \$5 billion general funds deficit across FY 2003 and FY 2004. In order to meet the challenge presented by the \$5 billion hole while maintaining or expanding many spending priorities, the governor included an array of revenue raising measures in his budget

proposal as an accompaniment to program and administrative cuts.

Table 2. Revenues (in billions)	FY 2001 (final)	FY 2002 (final)	FY 2003 (expected)	FY 2004 (expected)
All Funds	\$37.7	\$38.2	\$39.3	\$43.2
General Funds	\$24.1	\$23.4	\$23.6	\$26.7

FY 2004 general funds revenue projections total \$26.7 billion, a 13 percent increase over FY 2003 expectations. Although that increase does pay for some new investments in children, families and communities, it also reflects the governor's resolve to pay down the \$5 billion deficit. The \$3.6 billion of FY 2004 revenues that exceed proposed appropriations primarily pay for:

- FY 2003 bills that will not be paid by the start of FY 2004 (referred to as "lapse" spending) and
- Transfers to other state funds, including a \$710 million transfer to the income tax refund fund to help pay off unpaid 2001 corporate tax refunds. For every month that those refunds go unpaid, the state is obliged to pay interest to the intended recipient.

The budget plan also includes a \$200 million increase in the end-of-year balance for FY 2004 relative to FY 2003.

A patchwork of new revenues referred to as "deficit reduction measures" make up most of the 13 percent revenue increase for FY 2004 over FY 2003, about \$3.5 billion. The governor categorizes those revenues in the following way (all dollar totals are approximate; the Governor's Office of Management and Budget is finalizing components of the revenue proposal; for a more detailed breakdown of deficit reduction measures, see Appendix A):

- *Tax expenditure reductions*: \$323 million – Eliminates approximately 14 tax expenditures (e.g., exemptions and credits) that primarily affect businesses; decouples from the federal

phase out of the estate tax (\$35 million in initial year due to recovery of phased-out portion of tax)

- *“Sin” tax adjustments*: \$633 million
- *Asset sales and sales/leasebacks*: \$233 million
- *User fee adjustments*: \$342 million – Increases up to 100 user fees
- *Administrative chargebacks*: \$330 million – Charges some of the state’s special funds a fee for administration by the state to be deposited in the general funds; governor’s proposal includes an additional transfer of \$144 from these state funds to the general funds to cover administration expenses for FY2003.
- *Other*: \$40 million – Tax amnesty revenues
- *Pension bonding proposal*: \$1.6 billion – The governor proposes issuing \$10 billion in general obligation bonds at a 6 percent interest rate to pay pension liabilities of \$1.6 billion in FY 2004 that would otherwise would have been paid out of general revenue funds. An additional \$300 million will be used to pay FY 2003 liabilities. After accounting for fees associated with the bond sale, the remaining bond proceeds will be invested along with other pension funds at an expected rate of return of 8-8.5 percent.

Of the new revenues identified in the governor’s budget proposal as deficit reduction, about one-third can be considered recurring. The remaining portion consists of one-time measures that can only help Illinois through FY 2004. Although the recurring sources Gov. Blagojevich recommends chip away at Illinois’ structural deficit while protecting important education and health care programs, none of them solve the underlying problems of the state fiscal structure embedded in the income and sales taxes. The long-term problems still remain and will resurface when the FY 2005 budget is built next year.

The remainder of this report analyzes how state investments in children and families fare in the FY 2004 budget recommendation relative to previous fiscal years. In all cases, this analysis compares the FY 2004 spending recommendation with the FY 2003 appropriation. A detailed history of funding for the programs discussed in the text can be found in Appendix B, beginning on p. 14. **For more information on the items included in this report or other issues, please contact Emily Moiduddin at 312-516-5568 or emoiduddin@voices4kids.org.**

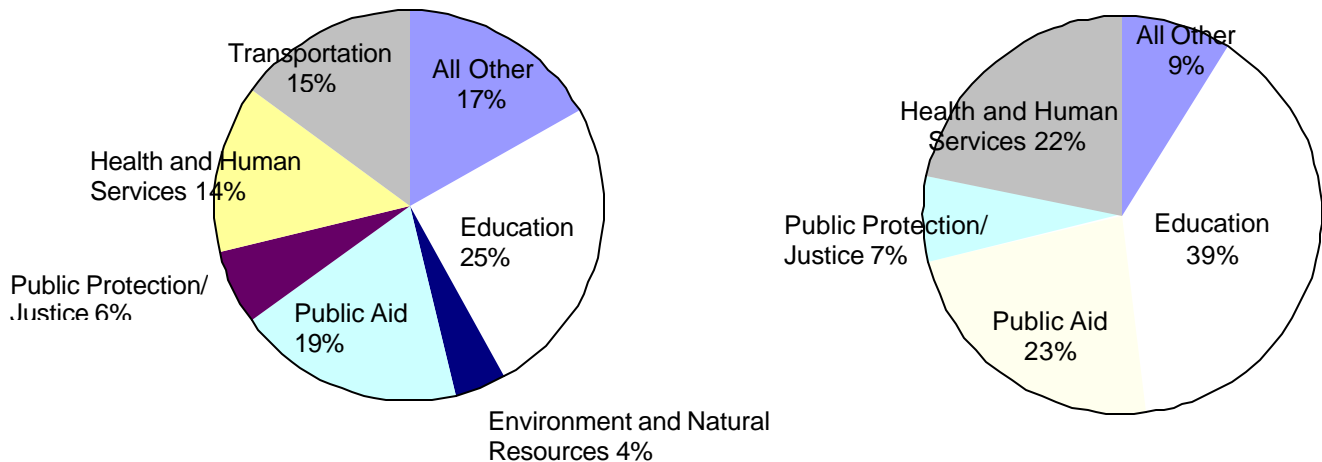
Issue Area and Department Spending

Relative spending by issue area remains fairly consistent between FY 2003 and the FY 2004 proposal. Education (including elementary, secondary and higher education) receives the largest proportion of spending (for a complete breakdown of spending patterns see figure below).

FY 2004 Recommended Appropriations by Issue

All Funds Total - \$52.4 Billion

General Funds - \$23.1 Billion



Focusing on six departments that encompass a large portion of child, family and community programming, budget changes between FY 2003 and FY 2004 range from 0 to 13.41 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 (13.41 percent) in the budget proposal, driven largely by an increase in Medicaid liability through both cost and population increases and a proposal to pay doctors and hospitals that care for Medicaid recipients in a more timely manner, rather than pushing those liabilities into future years. The 3.76 percent increase at the Illinois State Board of Education (ISBE) and the 1.8 percent at the Department of Human Services (DHS) reflect an increase of both state and federal dollars. For DHS, a portion of the state increase will be used to eliminate the practice of pushing child care subsidy liabilities forward beyond the close of a fiscal year. At the Department of Public Health (DPH), the 2.24 percent budget growth results entirely from federal dollars; the budget proposal cuts state dollars.

Agency	FY 2002 Original ¹ Appropriation	FY 2003 Appropriation	FY 2004 Proposed	% Change FY '03-'04	% Change FY '02-'04
DOC	\$1,449	\$1,355	\$1,430	5.54%	-1.31%
DCFS	1,433	1,376	1,376	0	-3.98
DHS	5,004	4,902	4,990	1.8	-0.28
DPH	329	313	320	2.24	-2.74
ISBE	7,999	8,239	8,549	3.76	6.88
DPA	8,047	8,688	9,853	13.41	22.44

1. The FY 2002 appropriations shown here are the original appropriations enacted by the General Assembly. Midway through FY 2002, agency budgets were cut.

Although the Department of Children and Family Services' (DCFS) total budget recommendation is flat, a small drop in federal dollars is made up by state funds.

As Table 3 indicates, FY 2004 proposed increases do not bring budgets back to FY 2002 pre-cut levels at DOC, DCFS, DHS or DPH. In some cases, this indicates that program and service cuts remain in place. For example, the 6 percent cut in reimbursement rates to doctors and hospitals that care for children and families receiving Medicaid, KidCare and FamilyCare made in 2002 and 2003 is not restored in the FY 2004 proposal. This cut has a direct, negative impact on families' ability to find medical care.

PreK-12 Education and Child Care

K-12 Education

Gov. Blagojevich recommends a 3.76 percent increase (\$309.5 million) in the Illinois State Board of Education FY 2004 budget (see Table 4), an important increase at a time when almost 80 percent of Illinois schools are operating at a deficit. The \$309.5 million increase includes an additional \$61 million for teachers' retirement and \$118.5 million additional federal dollars, leaving an overall increase of \$130 million state dollars for education. The welcome fact that the proposal grows the early childhood, elementary and secondary education budget is juxtaposed against significant movement in funding priorities.

In order to increase the foundation funding level—the basic building block of education funding in Illinois—from \$4,560 per student in FY 2003 to \$4,810 in FY 2004, the governor recommends a \$234.5 million increase in general state aid (GSA).¹ The budget proposal achieves the majority of the increase during a time of fiscal crisis by collapsing 24 existing grant programs that total about \$200 million and shifting that money to GSA. Grants included in the shift are Charter Schools, Regional Office of Education, the School Safety Block Grant, and the Textbook Loan Program, among others (for a complete list of the 24 grants, see Appendix C; five additional grants transferred to other state agencies can also be found in Appendix C).

Table 4. Education and Early Care Funding, FY 2003 & 2004
(in millions)

Program (agency)	FY 2003 Appropriation	FY 2004 Proposal	% Change
ISBE Total	\$8239.2	\$8548.7	3.76%
General Funds (ISBE)	6143.6	6350.3	3.36
Federal Funds (ISBE)	1952.1	2070.6	6.07
General State Aid (ISBE)	3207.8	3442.3	7.31
Special Education	689.8	710.4	2.98
Early Childhood Education Block Grant (ISBE)	184.2	214.1	16.24
Universal Pre-K (ISBE)	5.2	0	-100
Charter Schools	11.7	4.5	-61.57
Literacy Programs	79.9	79.6	-0.33
Child Care (DHS)	611.2	666.3	9.02
Child Care (DCFS)	25.1	25.1	0
Preschool (Special Education)	25	25	0

¹ According to the governor's office, this increase in the foundation level will be the first in a series of increases aimed at reaching the foundation level identified by the Education Funding Advisory Board as necessary for an adequate education--\$5,665.

The governor's proposal to increase general state aid is a positive move that creates some challenging consequences. The foundation formula—the mechanism used for distributing general state aid—is considered the most efficient, equitable manner for getting state funds to local school districts. This formula considers both the population a district serves and the district's capacity to cover education costs with local resources. Local schools can then target general state aid as they see fit. For many districts, this funding scenario will be an important step towards adequate resources.

On the other hand, many of the 24 collapsed grants fund important priorities, and many districts may lose state funding as a consequence of the spending plan. According to an analysis by ISBE, 680 of the state's 893 school districts are expected to experience a net gain in state dollars, and another 213 are expected to lose money.² Those 213 districts may already be dealing with local deficits. Since presenting the budget proposal on April 9, Gov. Blagojevich has indicated he may be willing to include "transitional funding" in his budget so that no districts experience a net loss.³

The governor maintains 91 percent funding for mandated categorical grants like Special Education in his FY 2004 budget proposal. Although this move will provide equivalent funding levels in FY 2004 as in FY 2003, it does not move the state towards the 100 percent funding rate that was available in FY 2002.

Early Childhood Block Grant

Gov. Blagojevich has set a three-year funding goal of \$90 million additional dollars for the Early Childhood Block Grant to move towards universal preschool for all 3- and 4-year-olds in Illinois whose parents want them to participate. As a first step towards that goal, the governor proposes increasing the Early Childhood Block Grant by \$29.9 million in FY 2004. This translates into a net gain of \$24.7 million for early education because the governor transferred the \$5.2 million Universal Pre-School line item that existed in FY 2003 to the block grant for FY 2004. The additional dollars will allow about 8,000 additional kids to receive early childhood education, up to 65,533 in FY 2004 from the current year total of 57,521.

Child Care

The DHS child care program receives a \$55.1 million increase in the FY 2004 budget recommendation. This would take the total budget from \$611.2 million in FY 2003 to \$666.3 million in FY 2004. At this time it appears that the increase will not result in changes to the number of children served. About 195,000 children in both FY 2003 and FY 2004 are expected to benefit from child care subsidies. Instead, a large portion of that increase will be used to eliminate the practice of pushing child care subsidy liabilities forward beyond the close of a fiscal year, creating a need for more funding within the fiscal year.

² Analysis available at www.isbe.net.

³ Source: Finke, Doug. "All schools may win out: Blagojevich considers plan to make sure no districts lose funding." *Springfield Journal Register*. April 17, 2003. More detailed analyses will be released by ISBE in the next few weeks.

Two additional early care and education programs maintain their funding in the proposed budget. The ISBE special education preschool program, funded by federal dollars, will receive \$25 million, and the DCFS child care program recommendation is steady at \$26.1 million.

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 2003 and the FY 2004 proposal at \$7.16 million.

Health and Income Supports

Medical Assistance: Medicaid, KidCare and FamilyCare

The FY 2004 proposed budget expects the medical assistance clientele, which includes Medicaid, KidCare and FamilyCare, to grow from about 1,563,600 million in FY 2003 to 1,674,800 in FY 2004, an increase of 7 percent (111,200 clients; see Table 5). That growth reflects both an increased need among those currently eligible for assistance and policy changes that expand eligibility for children and families. First, the governor has proposed increasing eligibility for KidCare to 200 percent of poverty (\$34,040 annually for a family of four) from 185 percent, adding 20,000 children to the program. Second, the proposal increases FamilyCare eligibility to 90 percent of poverty (\$16,560 for a four-person family), bringing health coverage to an additional 65,000 working parents. If the FamilyCare program is expanded in future years, Illinois could cover approximately 300,000 parents with incomes up to 185 percent of the poverty level (\$36,800 for a four-person family). The governor has also proposed expanding the SeniorCare pharmaceutical assistance program to 250 percent of poverty, bringing support to an estimated 50,000 additional seniors.

Total Medical Assistance	111,200
KidCare	20,000
FamilyCare	65,000
Other	26,200

Overall, proposed funding for medical assistance programs in FY 2004 exceeds FY 2003 totals by 14 percent (not including KidCare, FamilyCare, and four additional line items; see Table 6). That increase reflects both the expected growth in Illinoisans served and a move towards paying medical bills in a timely manner. Federal matching funds will pay for about half of the increase.

Table 6. Health and Income Support Funding, FY 2003 & 2004 (in millions)

Program Area (Department)	FY 2003 Appropriation	FY 2004 Proposal	% Change
Medical Assistance (DPA)¹	\$8006.2	\$9128.3	14.01%
KidCare (DPA)²	265.1	326.8	23.27
Family Care (DPA)³	10.0	83.0	730
TANF (DHS)	157.2	117.7	-25.13%
Child Support Enforcement (DPA)	226.1	211.7	-6.37
Emergency Assistance (DHS)	.98	.98	0

1. 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, Medical Care: Hemophilia, and spending on KidCare and FamilyCare. Medical Assistance includes both state and federal matching funds.
 2. KidCare totals reflect estimated expenditures rather than appropriations. In both FY 2003 and FY 2004, estimated federal expenditures represent 53 percent of the total.
 3. In FY 2003, all FamilyCare spending is federal. In FY 2004, \$61 million (73 percent) is federal spending and \$22 million (27 percent) is state.

According to the Department of Public Aid, liability growth between FY 2003 and the FY 2004 proposal totals \$465.9 million for KidCare, FamilyCare, SeniorCare and the remaining medical assistance clientele. An additional \$4 million in state dollars leveraged \$7 million from the federal government to pay for KidCare expansion. An additional \$22 million in state dollars leveraged \$41 million of federal to expand FamilyCare. Total budget growth was constrained by introducing reforms in prescription drug purchasing, reducing managed care entity payment rates by 5 percent and by halting reimbursement to long-term care providers to keep empty beds on reserve.

Additional budget growth can be attributed to paying backlogged bills and to decreasing the overall payment cycle. As of the April 9 budget address, medical providers (e.g., hospitals, doctors, long-term care) were reimbursed for services 90-120 days after services were reported. Consequently, DPA expects \$1.1 billion of medical bills for services provided in FY 2003 will remain unpaid by the close of FY 2003. The lengthy payment cycle hurts medical providers' financial stability and induces those providers to turn Medicaid recipients away. To begin changing that scenario, the recommended budget has an FY 2004 built-in payment cycle that averages 40 days and has a maximum of 60 days. Maintaining that cycle through FY 2004 requires an additional \$925.6 million. The budget recommendation, however, does not restore the average 6 percent cut made to payment rates for medical providers in FY 2003. Even before this cut, Illinois ranked near the bottom among the 50 states for reimbursements to doctors and hospitals.

Income Assistance

The governor's recommendation for Temporary Assistance to Needy Families falls to \$117.7 million from \$157.2 million, a drop of 25.13 percent. Reduced funding reflects the expectation that average monthly TANF recipients will drop from 107,180 in FY 2003 to 96,910 in FY 2004, a 9.5 percent reduction. Gov. 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 \$530; if it had kept pace since 1975, it would be about \$820.

The governor recommends that DPA's Child Support Enforcement Unit, the entity in charge of pursuing child support collections, have its funding reduced by 6 percent (\$14.4 million) in FY 2003. This reduction would take the unit's budget from \$226.1 million to \$211.7 million. The DHS emergency assistance program has a funding recommendation of \$980,000 for FY 2004, the same level of funding as in the current fiscal year.

Finally, the governor proposes that the state earned income tax credit be made permanent. He recommended allocating \$40 million to the income tax refund fund for FY 2004, an increase of \$5 million from FY 2003.

Community Health and Prevention

By investing in prevention programs in the present, Illinois saves 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 those programs are discussed here.

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. In 2001, EI underwent drastic changes due to its historical problems meeting children's needs. Although DHS still runs EI, the state appropriates funds to ISBE, which then transfers funds to DHS as they are needed. For FY 2004, the recommended appropriation of state funds totals \$67.5 million, the same as FY 2003 (though a 4 percent drop from the FY 2002 original appropriation). According to DHS, after accounting for federal EI and Medicaid funds, expected spending for EI in FY 2004 will be \$95 million, 11.8 percent above FY 2003 expenditures.

For FY 2004, the governor recommends that Healthy Families Illinois (HFI), a home-visiting program that provides parenting support services for more than 3,000 families, receive a \$9.3 million appropriation. This 4.1 percent drop in funding will likely reduce the number of at risk families served by HFI.

The budget proposal includes \$10.7 million for Parents Too Soon, a pregnancy prevention and parenting support program for teens. This is 1.8 percent below the FY 2003 appropriation. This reduction may also influence HFI programs, because a small portion of Parents Too Soon funding supports HFI. The governor recommends flat funding of \$2.5 million for the Intensive Prenatal Performance Project, a program that offers intensive services to women with the most at-risk pregnancies.

Finally, grant funding for both developmental disabilities and mental health programs and services is reduced by about 1 percent across the board in the DHS budget recommendation. The proposed cut (\$6.25 million for developmental disabilities grants and \$3.25 million for mental health grants) will have an impact on many programs, including those that serve children.

Table 7. Community Health and Prevention Funding, FY 2003 & 2004 (in millions)

Program Area (DHS)	FY 2003 Appropriation	FY 2004 Proposal	% Change
Early Intervention (expenditures)	\$85	\$95	11.8%
Healthy Families Illinois	9.7	9.3	-4.1
Parents Too Soon	10.9	10.7	-1.8
Intensive Prenatal Performance Project (IPPP)	2.5	2.5	0

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 2004 remains flat relative to FY 2003. However, the budget still remains 4 percent below the original FY 2002 appropriation.

Table 8. DCFS Program Funding, FY 2003 & 2004 (in millions)

Program Area (DCFS)	FY 2003 Appropriation	FY 2004 Proposal	% Change
DCFS Total	\$1376.5	\$1376.5	0.00%
Protective Services	79.3	82.0	3.48
Family Support	42.6	42.6	0.00
Foster Care	346.6	316.5	-8.68
Institution/Group Homes	229.9	218.2	-5.09
Adoption	272.5	293.4	7.67

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 18,105 in FY 2003 to 16,650 in FY 2004, a drop of 8 percent (1,455). Residential placements will drop from 1670 in FY 2003 to 1480 in FY 2004, a drop of 11 percent (190). As a consequence, funding for both foster care and institution/group home programs have recommended reductions of 8.68 and 5.09 percent, respectively, in the FY 2004 budget. Conversely, the budget proposal includes a 7.67 percent increase for adoption and guardianship services due to an expected growth in the total adoptions and guardianships (41,435 in FY 2003 to 43,440 in FY 2004).

The governor recommends flat funding from FY 2003 to FY 2004 for family support services, \$42.6 million, and he proposed that the child protective services considered in this analysis receive a 3.48 percent increase, going from \$79.3 million in FY 2003 to \$82 million in FY 2004.

Out-of-School Time and Community Schools

The community school and out-of-school time programs discussed here, all of which tend to complement or supplement school-day activities, were all cut or eliminated between FY 2002 and FY 2003. The FY 2004 recommendation does not restore any programs.

First, the governor's proposal includes a \$600,000 decrease for Teen REACH relative to the FY 2003 appropriation, for a total FY 2004 budget of \$19.4 million. Teen REACH offers prevention-focused, out-of-school activities to high-risk 6- to 17-year-olds and is based in DHS.

Program Area (Department)	FY 2003 Appropriation	FY 2004 Proposal	% Change
Teen REACH (DHS)	\$19.9	\$19.4	-2.77%
Project Success (DHS)	0	0	--
Safe to Learn (IVPA) (actual expenditures)	0	0	--
Summer Bridges (ISBE)	25.1	25.1	0
Parent Involvement Campaign (ISBE)	1.0	1.0	0

Second, funding for the DHS Project Success program and the Illinois Violence Prevention Authority's Safe to Learn grant program, zeroed-out in FY 2003 budget, are not restored in the FY 2004 proposal. In FY 2002, Project Success was funded at \$3.8 million, and Safe to Learn granted \$13.9 million to schools across Illinois to support school-community partnerships that worked to make school environments safer.

The ISBE parent involvement campaign lost \$500,000 of funding during FY 2002 budget cuts. The governor's proposal does not restore funding for FY 2004.

Finally, funding changes at ISBE may threaten community school activities. Some of the 24 grants slated for collapse currently support community school and out-of-school time activities (see Appendix C for a list of collapsed grants).

Corrections

The Department of Corrections' total budget grew by 5.53 percent in the governor's FY 2004 recommendation. The total adult population is expected to increase from 43,201 in FY 2003 to 43,674 in FY 2004, 1 percent. The juvenile facility population will grow from 1,460 in FY 2003 to 1,474 in FY 2004, 1 percent. A portion of the funding growth (\$23.8 million) will be used to reopen the Sheridan Correctional Center as a substance abuse treatment facility in January 2004.

Table 10. Corrections Funding: FY 2003 and 2004 (in millions)

Program Area (Department)	FY 2003 Appropriation	FY 2004 Proposal	% Change
Adult Division (DOC)	\$876.8	\$944.4	7.72%
Juvenile Division (DOC)	112.5	112.0	-0.39
Mental Health/Juvenile Justice Programs (DHS)	15.0	14.8	-0.94

Appendix A: Revenue Analysis

Deficit Reduction Walk-Down¹	Combined FY 03 & FY 04 Dollar Total (in millions)	Breakdown
Beginning Cash Balance (6-3-02)	\$256.0	
Transition Team Deficit (12-02)	\$(4,836.0)	Key Assumptions: Spending pressures based on current services, no restorations of budget reductions, no new initiatives; no action to remedy shortfall in FY 2003; flat revenues in FY 2003 and 2% growth in FY 2004
FY 2003 Projected Additional Deficit Pressures: Revenue Shortfall exceeded Transition Team estimate	\$(350.0)	
Adjusted Deficit Before Governor's Proposal	\$(5,186.0)	
FY 2003 Deficit Reduction Initiatives:		
Reserves & Administrative Cuts	\$202.0	See endnote ²
Reduced Supplemental Pressures	\$283.0	These pressures are not identified, but would be relieved by extension of Medicaid payment cycle and by continued temporary increase in use of Road Funds for operations of State Police and Secretary of State. ³
Reimbursement from Pension Bond Proceeds	\$300.0	
Other One-Time Initiatives	\$144.0	Transfer fund balances from agencies that will be subject to administrative charge back into general revenue fund
<i>Total FY 2003 Deficit Reduction Initiatives</i>	\$929.0	
FY 2004 Deficit Reduction Initiatives:		
Base Revenue estimate Exceeds Transition	\$419.0	
Governor's Initiatives, Reserves & Administrative Cuts	\$407.0	Cost Savings Initiatives⁴ (GRF only); Procurement \$12.8; Information Technology \$8.8; Vehicle Freeze & Reduction \$5.4; Functional Consolidations \$11.3; Merit Compensation \$26.4; Reserves & Cuts⁵ : (see endnote)
Transfer from Pension Bond Proceeds	\$1,600.0	
Additional One-time Initiatives	\$705.0	Sale of 10 th gaming license \$350; Sale of Assets \$233; tax amnesty \$40
On-going Initiatives	\$1,320.0	Administrative charge backs \$330 ⁶ ; non-consumer fee adjustments \$342 ⁷ ; "sin" tax adjustments including liquor tax compliance but excluding sale of license \$283 ⁸ ; eliminating various tax exemptions \$288; decouple from federal estate tax repeal \$35 ⁹
<i>Total FY 2004 Deficit Reduction Initiatives</i>	\$4,451.0	
Total Deficit Reduction Initiatives	\$5,380.0	
Projected Ending Cash Balance (6-30-04)	\$450.0	
Projected Unpaid 2004 bills to be paid in June & July of 2004 (lapse)	(\$850.0) ¹⁰	

¹ This details the governor's fiscal year 2004 revenue projection and deficit reduction plan. The first two columns—*Deficit Reduction Walk-Down* and *Combined FY 03 & FY 04 Dollar Total*—come directly from the “Deficit Reduction Walk-Down” attached to the transcript of the governor’s April 9 budget address. The final column—*Breakdown*—provides additional information compiled from the Budget Book and the Budget in Brief. Some disparity exists between the numbers and totals in these sources and the deficit walk-down. This chart is meant to assist the reader in broad strokes in deciphering how the governor addresses the \$5 billion FY 2003/FY 2004 budget deficit. Numbers included in the *Breakdown* do not necessarily add up to the numbers included in the *Combined FY 03 & FY 04 Dollar Total*.

² Legislative Agencies² \$1.7; Aging \$5.6; Agriculture \$2.3; CMS-operations \$3.3; DCFS \$6.6; Comm. & Econ. Oppo. \$2.9; Corrections \$30.6; Human Rights \$0.3; Human Services \$22.3; Labor \$0.4; Military Affairs \$0.8; Natural Resources \$10.4; Professional Regulation \$0.86; Public Aid \$9.9; Public Health \$4.5; Revenue \$4.9; State Police \$6.4; Veterans Affairs \$0.6; Other Agencies \$12.6; Elementary and Secondary Education \$2.7; Higher Education \$60.2.

³ The items making up the “Reduced Supplemental Pressures” lines are not directly identified in the budget materials. The Department of Public Aid briefing materials indicate that the budget assumes that the Medicaid payment cycle will be at 58 days at the end of FY 2004. This is 28 longer than the 30-day normalized cycle assumed in calculating the budget deficit. Each day the cycle is extended beyond that assumption effectively pushes \$18.7 million into the following fiscal year—for a total of \$524 million. With respect to the Road Fund, the correlation between this year’s appropriation and last year’s from the Road Fund to the Secretary of State’s Office and the State Police indicates the continuation of the temporary increase in the maximum amount of that fund that can be used to pay for the operations of those agencies. This relieves approximately \$100 million in pressure on the general revenue fund. These deficit strategies clearly exceed the sum reflected in this chart.

⁴ Budget Book, Table IA

⁵ Difference between general funds appropriations as estimated for FY 2003 and FY 2004 proposed as reflected on Table I-A of Budget Book; numbers slightly off due to rounding. Elected Officials \$0.2; Agriculture \$3.9; CMS-operations \$53.89; Comm. & Econ. Oppo. \$32.6; Human Rights \$0.29; Insurance \$0.24; Labor \$0.26; Military Affairs \$0.405; Natural Resources \$21.24; Professional Regulation \$0.37; Public Aid Drug Advocate \$120; Public Health \$4.9; Revenue \$2.77; Transportation \$7.9; Veterans’ Affairs \$3.9; Other Agencies \$55.5; Higher Education \$38.55

⁶ The Governor proposes assessing a 5% charge against the balances of 502 special state funds that historically have received general revenue funds to pay for administrative expenses. Among many others, the list of funds includes the Oil Spill Response fund, Early Intervention Services Fund, Child Abuse Protection Fund, Mammogram Fund, Substance Abuse Block Grant, School Asbestos Abatement, Hazardous Waste Fund, and Motor Carrier Safety Inspection Fund.

⁷ The Governor proposes raising 90 different fees in 12 different agencies to raise \$323.2 million in general funds. He also proposes raising an additional \$14.7 million in fees levied by the Secretary of State’s Office that would be deposited into the Road Fund or the Secretary of State Services Fund.

⁸ Budget in Brief at 10-1. Adjustments include 20% surcharge on highest riverboat profits; prepay liquor tax; adjust casino tax rate schedules; increase riverboat casino ticket price from \$3 to \$5.

⁹ Identified tax exemptions in Budget Address: graphic artist equipment; rolling stock exemption; Manufacturers Purchase Credit, Interim Use of Personal Property, Coal, Oil and Distillation Exemption, Replacement Vehicles Exemption, Research and Development Credit, Training Expense Credit, Life Health Insurance Guarantee Association Tax Offset, Foreign Insurer Rate Reduction, Replacement Rate Reduction, Standard Exemption, Research and development credit; adjust net operating loss deduction; natural gas taxation; private planes; estate tax.

¹⁰ Added to Deficit Reduction Walk-Down Chart from FY 2004 Budget Plan, Illinois State Budget FY 2004, Table D.

Appendix B: Historical Funding Trends

- Table 1. Appropriations by Department
- Table 2. Select PreKindergarten-12 ISBE Appropriations
- Table 3. Select Early Care Appropriations
- Table 4. Select Health and Income Support Appropriations
- Table 5. Select Community Health and Prevention Appropriations
- Table 6. Select Intervention for Children at Risk Appropriations
- Table 7. Select Out-of-School Time and Community Schools Appropriations
- Table 8. Select Corrections Appropriations

**Table 1. Appropriations by Department
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Department	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
DCFS	\$1,393	\$1,403	\$1,412	\$1,433	\$1,376	\$1,376	0%
DHS	4,469	4,467	4,793	5,004	4,902	4,990	1.8
DOC	1,170	1,244	1,349	1,449	1,355	1,430	5.54
DPA	6,168	6,932	7,735	8,047	8,688	9,853	13.41
DPH	201	229	265	329	313	320	2.24
ISBE	6,706	7,398	8,076	7,999	8,239	8,549	3.76

**Table 2. Select PreK-12 ISBE Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
ISBE Total	\$6,705.7	\$7,397.8	\$8,076.1	\$7,998.8	\$8,239.2	\$8,548.7	3.76%
General Funds	5,182.8	5,606.3	5,919.3	6,226.5	6,143.6	6,350.3	3.36
Federal Funds	1,353.1	1,553.2	1,925.6	1,623.0	1,952.1	2,070.6	6.07
General State Aid¹	2,923.0	2,982.6	3,005.0	3,266.4	3,207.8	3,442.3	7.31
Early Childhood Block Grant	154.2	170.2	180.2	184.2	184.2	214.1	16.24
Pre-Kindergarten²	141.2	156.6	165.8	169.4	169.4	196.9	16.23
Universal Preschool³	NA	NA	NA	NA	5.2	0	-100
Special Education (state funds)⁴	539.3	679.2	726.0	699.5	689.8	710.4	2.98
Preschool-Special Education (federal funds)⁵	25.0	25.0	25.0	25.0	25.0	25.0	0
Charter Schools⁶	2.5	14.5	15.5	14.5	11.7	4.5	-61.57
Literacy Programs (state funds)⁷	83.4	85.9	87.4	88.0	79.9	79.6	-0.33

1. General state aid includes hold harmless.
2. PreKindergarten represents 92 percent of the Early Childhood Block Grant. It does not include administrative costs.
3. The \$5.2 million appropriated for Universal Preschool in FY 2003 was folded in the Early Childhood Education Block Grant for FY 2004.
4. 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 Phillip Rock Center appropriation has been transferred to DHS in the FY 2004 budget proposal. 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.
5. This preschool funding comes from the federal Individuals With Disabilities Education Act.
6. The Charter School figure includes Charter Schools (state), Charter Schools (federal) and the Charter Schools Revolving Loan Fund.
7. Literacy Programs include the Reading Improvement Block Grant, the Reading Improvement Statewide program and the Family Literacy program. In FY 2003, the Reading Improvement Statewide Program was eliminated. For FY 2004, the governor proposes eliminating Family Literacy funding as well.

**Table 3. Select Early Care Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (Department)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
Child Care (DHS)¹	\$391.5	\$545.7	\$656.6	\$657.6	\$611.2	\$666.3	9.02%
Child Care (DCFS)²	19.9	25.3	26.0	26.1	25.1	25.1	0

1. Child Care in DHS includes the following line items: The Child Care Services Distributive Item (General Revenue Funds), Child Care Services (General Revenue Funds and Special Purpose Trust Funds), Child Care Services Personnel (Special Purpose Trust Fund), Great Start (General Revenue Funds and Special Purpose Trust Funds) and Migrant Child Care Services (Special Purpose Trust Fund). The total does NOT include the Donated Funds Initiative (\$22.39 million every year between FY 1998 and the FY 2004 proposal).
2. Child Care in DCFS includes Protective/Family Maintenance and Day Care Infant Mortality. DCFS child care does not include administrative costs.

**Table 4. Select Health and Income Support Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (Department)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '02-'03 Change
TANF (DHS)¹	\$711.4	\$331.6	\$263.8	\$206.9	\$157.2	\$117.7	-25.13%
Medical Assistance (DPA)²	5,720.6	5,957.0	6,636.7	7,439.6	8,006.7	9,128.2	14.01
KidCare (DPA)³	116.8	83.0	138.6	185.4	265.1	326.8	23.27
Family Care (DPA)⁴	NA	NA	NA	NA	10.0	83.0	730
Child Support Enforcement (DPA)	148.8	255.5	175.1	233.1	226.1	211.7	-6.37
Emergency Assistance (DHS)⁵	2.0	2.0	1.0	1.0	.98	.98	0

1. The TANF appropriation does not include administrative costs.
2. 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, Medical Care: Hemophilia, and spending on KidCare and FamilyCare. 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.
3. KidCare totals reflect estimated expenditures. KidCare is funded with both state and federal matching funds.
4. FamilyCare totals reflect estimated expenditures. In FY 2003, all FamilyCare spending is federal. In FY 2004, \$61 million (73 percent) is federal spending and \$22 million (27 percent) is state.
5. During FY 2002 midyear budget cuts, Emergency Assistance was reduced to \$500,000. This total does not include administrative costs.

**Table 5. Select Community Health and Prevention Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (DHS)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
Early Intervention (expenditures)¹	\$44.9	\$67.0	\$95.7	\$80.9	\$85.0	\$95.0	11.8%
Healthy Families Illinois²	3.0	6.8	8.8	9.7	9.7	9.3	-4.1
Parents Too Soon³	9.3	10.2	10.8	11.0	10.9	10.7	-1.8
Intensive Prenatal Performance Project (IPPP)	NA	0.0	2.0	2.5	2.5	2.5	0

1. Source: Department of Human Services. Starting in FY 2002, 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 FY 2002, all funding was allocated to DHS. Total funding for EI is made up of the state appropriation to ISBE, federal Early Intervention dollars and Medicaid dollars (starting in FY 2001).
2. 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.
3. During FY 2002 midyear budget cuts, Parents Too Soon Funding was reduced by \$54,000 to \$10.9 million.

**Table 6. Select Intervention for Children at Risk Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (DCFS)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
DCFS Total	\$1,393	\$1,403	\$1,412	\$1,433	\$1,376	\$1,376	0
Protective Services¹	67.6	66.4	69.9	76.5	79.3	82.0	3.48
Family Support²	33.2	33.5	33.6	43.3	42.6	42.6	0
Foster Care³	505.7	449.5	410.0	382.5	346.6	316.5	-8.68
Institution/Group Homes	279.1	268.9	264.9	253.9	229.9	218.2	-5.09
Adoption	110.1	171.9	216.5	255.6	272.5	293.4	7.67
<ol style="list-style-type: none"> 1. 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. 2. Family Support includes the Family Preservation Program and Family Centered Services Initiative line items. 3. Foster Care includes Foster Care Homes and Specialized Foster Care. Administrative costs are not included. 4. Institution/Group Homes covers the Group Home Care and Prevention line item. Administrative costs are not included. 5. Adoption covers Adoption and Guardianship Services. Administrative costs are not included. 							

**Table 7. Select Out-of-School Time and Community School Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (Department)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
Teen REACH (DHS)¹	\$3.3	\$13.5	\$19.8	\$20.0	\$19.9	\$19.4	-2.77%
Project Success (DHS)²	3.8	3.8	3.8	3.8	0	0	0
Safe to Learn (IVPA) (actual expenditures)³	NA	13.0	13.1	13.9	0	0	0
Summer Bridges (ISBE)	NA	13.0	23.0	26.0	25.1	25.0	-0.04
Parent Involvement Campaign (ISBE)⁴	NA	0.5	1.5	1.5	1.0	1.0	0
<ol style="list-style-type: none"> 1. During FY 2002 midyear budget cuts, the Teen REACH appropriation was reduced by \$400,000 to \$19.6 million. 2. During FY 2002 midyear budget cuts, the Project Success appropriation was reduced by \$1.1 million to \$2.7 million. 3. During FY 2002 midyear budget cuts, the Safe to Learn appropriation was reduced by \$1.7 million to \$12.2 million. 4. During FY 2002 midyear budget cuts, the Parent Involvement Campaign's funding was reduced by \$500,000 to the current \$1.0 million funding level. 							

**Table 8. Select Corrections Appropriations
FY 1999-FY 2003, FY 2004 Proposal (in millions)**

Program Area (Department)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 Proposed	FY '03-'04 Change
Adult Division (DOC)	\$773.0	\$845.9	\$904.4	\$958.1	\$876.8	\$944.4	7.72%
Juvenile Division (DOC)¹	99.5	82.4	103.3	121.7	112.5	112.0	-0.39
Mental Health/Juvenile Justice Programs (DHS)²	7.9	7.9	13.0	15.0	15.0	14.8	-0.94
<p>1. This only includes the operation expenses of adult centers. Beginning in FY 2000, information for field services was not available for adult versus juvenile facilities.</p> <p>2. This only includes the operation expenses of juvenile centers. It does not include school division costs.</p> <p>3. Mental Health/Juvenile Justice programs are appropriated from the General Revenue Fund and the Juvenile Justice Trust Fund.</p>							

Appendix C: Proposed Shifts in ISBE Grants

Table 1. ISBE Grants Recommended for Collapse in FY 2004		
Grant¹	FY 2003 Appropriation (in millions)	FY 2004 Proposal (in millions)
Administrators Academy	\$2.61	\$0
American Education Institute	0.15	0
Career Awareness	7.24	0
Charter Schools	7.43	0
Community Residential Services	0.47	0
District Consolidation Costs	1.67	0
Economic Education	0.14	0
Emergency Financial Assistance ²	4.5	0
Family Literacy	0.24	0
School Safety and Education Improvement	66.85	0
GED Testing	1	0
Gifted Education	19	0
Illinois Learning Partnership	0.39	0
Jobs for Illinois Graduates	7.24	0
Materials Center for the Visually Impaired	1.12	0
Mathematics Statewide	0.82	0
Mentoring—Administrators	0.45	0
Middle Level Schools	0.72	0
Regional Superintendent of Education	22.84	0
Substance Abuse and Violence Prevention	2.41	0
Tax Equivalent	0.22	0
Teach for America	0.45	0
Textbook Loan	29.13	0
Truant Education	18.95	0
Universal Pre-School (transferred to the Early Childhood Education Block Grant)	5.2	0
Total	\$201.24	0
<p>1. In addition to the grants listed here, funding for Chicago Teachers' Retirement was eliminated for FY 2004. The FY 2003 contribution was \$65.04 million.</p> <p>2. The \$4.5 million for Emergency Assistance went to the Hazel Crest School District.</p>		

Table 2. ISBE Grants Recommended for Transfer in FY 2004

Grants	Transferred To:	Appropriations (in millions)		% Change
		FY 2003	FY 2004	
Agriculture Education	Department of Agriculture	\$1.88	\$1.88	0%
Illinois Scholars Program	Illinois Student Assistance Commission	2.91	2.91	0
Technology for Success	Central Management Services	25.03	3	-88.01
Philip J. Rock Center and School	Department of Human Services	2.86	2.86	0
Post-Secondary Career and Technical Education	Illinois Community College Board	10.04	10.04	0