



THE GOVERNOR'S PRELIMINARY BUDGET PLAN FOR FY 2011

IMPLICATIONS FOR CHILDREN AND FAMILIES

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Governor Quinn has released a “preliminary budget plan” for fiscal year 2011. An interactive web site encourages the public to provide feedback on the preliminary budget and suggest solutions to the state fiscal crisis (www.budget.illinois.gov). The web site provides two important sets of data: an updated estimate of the FY 2011 budget deficit and a broad outline of spending cuts that would be required in the dire fiscal situation facing the state of Illinois. A complete budget plan will be released in conjunction with the Governor’s budget address on March 10th.

The Growing Deficit

In the absence of policy changes affecting revenues or expenditures, the Governor’s Office of Management and Budget (GOMB) projects a cumulative General Funds (GF) deficit of \$13.5 billion for FY 2011. This figure includes a \$6 billion carryover deficit from FY 2010, which largely reflects the backlog of delayed payments to service providers, as well as a \$7 billion gap between anticipated revenue and spending in FY 2011.

State Revenue

The recession continues to have a devastating effect on state revenues, especially income and sales taxes. GF revenue from state sources plummeted by almost \$2 billion in FY 2009 and is expected to drop another \$1.9 billion in FY 2010. GOMB projects a modest increase (about \$600 million) in FY 2011 (see Table 1). Nonetheless, revenue from the individual income tax, corporate income tax, and sales tax would still be lower than in FY 2006.

Table 1: General Funds Revenue from State Sources (in \$ millions)

	FY 2008	FY 2009	Estimate FY 2010	Projected FY 2011
Income and sales taxes	19,395	17,706	15,965	16,544
Other state sources	3,549	3,279	3,116	3,147
Total	22,944	20,985	19,081	19,691
Change	-----	-1,959	-1,904	610
Pct. change	-----	-8.5%	-9.1%	3.2%

Source: Governor's Office of Management and Budget

Federal Funds

Federal funds from the American Recovery and Reinvestment Act (ARRA) were used to reduce the GF budget deficit for FY 2009 and FY 2010. By the end of the current fiscal year, Illinois will have exhausted its entire share of the ARRA's State Fiscal Stabilization Fund, all of which was allocated to education programs. Enhanced federal matching funds for Medicaid will be applicable only through the first half of the next fiscal year. Altogether, the state will lose about \$1.4 billion in federal ARRA funds in FY 2011 (see Table 2).

Table 2: General Funds Revenue from Federal Sources (in \$ millions)

	FY 2008	FY 2009	Estimate FY 2010	Projected FY 2011
Regular federal grants	4,815	5,001	4,888	4,856
ARRA funds	0	1,566	1,855	429
State Fiscal Stabilization Fund	0	1,039	1,016	0
State Board of Education	0	1,039	922	0
State universities	0	0	94	0
Medicaid	0	527	839	429
Total	4,815	6,567	6,743	5,285
Change	-----	1,752	176	-1,458
Pct. change	-----	36.4%	2.7%	-21.6%

ARRA = American Recovery and Reinvestment Act

Source: Governor's Office of Management and Budget

Pension Costs

The most prominent manifestation of the structural deficit has been chronic underfunding of the state retirement systems. In 1995, the state enacted a 50-year plan to achieve adequate funding of pension obligations. The plan included a 15-year ramp-up period, after which the state's annual contributions would remain at a level percentage of payroll. The General Assembly did not adhere to the funding schedule, however. In addition to issuing \$10 billion in pension obligation bonds in 2003, the state continually deferred payments until the last several years of the "ramp," which unfortunately coincided with the recession.

Pension costs for the General Funds will increase by more than \$5 billion in FY 2011. This includes \$3.5 billion for pension contributions that were covered by borrowing in FY 2010, \$585 million for a legislatively mandated increase in the required contribution for FY 2011, and a \$1.1 billion increase in pension-related debt service.

The Bottom Line

GOMB estimates that the General Funds will have a cumulative deficit of \$6.2 billion at the end of the FY 2010. Without new revenue, the FY 2011 budget will have a \$5.3 billion shortfall, even after \$2 billion in spending cuts. The result would be cumulative, multi-year deficit of \$11.5 billion (see Table 3).

Table 3: Estimate of General Funds Budget Deficit for FY 2011 (in \$ millions)

Baseline FY 2011 deficit*		-\$1,159
FY 2011 changes in revenue		
State sources		
State income and sales taxes	579	
Other state revenue	31	
Federal sources		
Federal ARRA funds	-1,426	
Other federal funds	-23	
Transfers from other state funds		
Special transfers (fund sweeps)	-352	
Other transfers	-115	
Net changes in revenue		-1,306
FY 2011 changes in spending		
Pension costs		
Contributions covered by borrowing in FY 2010	3,466	
Increase in required contribution in FY 2011	585	
Pension-related debt service	1,098	
Spending reductions		
Prospective reductions in appropriations	-2,046	
Miscellaneous spending reductions	-247	
Net changes in spending		2,856
FY 2011 deficit		-5,321
Carryover deficit from FY 2010		-6,157
Cumulative deficit		-11,478

* Estimated deficit without any changes in revenue or spending.

Source: Governor's Office of Management and Budget

Prospective Spending Cuts

The preliminary documents from GOMB present data by broad functional area without breakdowns by agency or individual program. Health care programs in the Department of Healthcare and Family Services and other agencies would be funded at the same level as in FY 2010. Most of the spending cuts would come from elementary-secondary and higher education (\$1.3 billion) and human service agencies (\$386 million). The Department of Corrections and other public safety agencies would see modest reductions, while funding for the remainder of state government would be cut by \$350 million (see Table 4).

Health Care

The Department of Healthcare and Family Services has principal responsibility for the state's medical assistance programs. About 95 percent of total medical assistance spending is funded through Medicaid. Under ARRA, Illinois' federal matching rate has increased from 50 percent to almost 62 percent. The enhanced matching funds will be available through December 2010. In order to continue to get this fiscal relief (over \$400 million in GF revenue for the first half of FY 2011), the state cannot make its Medicaid eligibility standards or enrollment procedures more restrictive, and it must assure prompt payments to hospitals, nursing facilities, and practitioners.

In the Department on Aging, almost 85 percent of the GF budget is the Community Care Program. About 25 percent of the program costs are covered by federal Medicaid funds. The Community Care Program operates under a 1982 consent decree (*Benson v. Blaser*), which requires timely determination of eligibility and provision of services.

Education

Under the preliminary budget plan, funding for PK-12 and higher education would be \$1.32 billion below the FY 2010 level. The GOMB director has said that the State Board of Education budget would be reduced by \$922 million. This amount is equivalent to the loss of ISBE's federal ARRA funds and represents one-eighth of the ISBE budget in FY 2010.

About 90 percent of the ISBE budget consists of General State Aid (\$4.6 billion) and mandated categorical grants (\$1.9 billion), primarily for special education programs. Under ARRA maintenance-of-effort requirements, FY 2011 funding for these two areas must be no lower than FY 2006 levels.

Several months ago, the State Board considered a budget scenario with \$922 million in cuts. The hypothetical scenario raised the possibility of reducing General State Aid by more than \$500 million, including elimination of alternative formula grants and flat grants for comparatively wealthy school districts. Other possible reductions involved programs that promote children's academic success but were hit by substantial cuts in FY 2010:

- The Early Childhood Block Grant, which funds preschool programs operated by local school districts and qualified community agencies, as well as developmental services for infants and toddlers (potential cut of 45% in FY 2011).
- The Reading Improvement Block Grant, which provides funds for research-based reading programs for students from kindergarten through sixth grade (potential cut of 45% in FY 2011).
- Bilingual education programs, which serve nearly 200,000 students with limited English proficiency (potentially cut of 17% in FY 2011).

The most vulnerable parts of the ISBE budget would also include much smaller yet important programs such as the Children’s Mental Health Partnership, which provides funding to improve children’s social and emotional learning and well-being.

Budget cuts for higher education would total almost \$400 million. Under ARRA maintenance-of-effort requirements, state universities and community colleges must be funded at FY 2006 levels, which would mean maximum cuts of \$144 million. Most of the remaining cuts (\$254 million) would have to come from the Illinois Student Assistance Commission (ISAC). The ISAC budget for FY 2010 was originally cut by more than half, but a supplemental appropriation restored nearly full funding (\$425 million).

Table 4: Adopted General Funds Budget for FY 2010 and Preliminary General Funds Budget for FY 2011 (in \$ millions)

	FY 2010	FY 2011	Change	Pct. change
Health care	8,608	8,686	78	0.9%
Department of Healthcare and Families Services	7,761	-----	-----	-----
Department on Aging	656	-----	-----	-----
Department of Public Health	135	-----	-----	-----
Other	56	-----	-----	-----
Education	9,514	8,180	-1,334	-14.0%
State Board of Education	7,308	6,386	-922	-12.6%
General State Aid	4,616	-----	-----	-----
Mandated categorical grants	1,927	-----	-----	-----
Early Childhood Block Grant	342	-----	-----	-----
All other	423	-----	-----	-----
Higher education	2,206	1,794	-412	-18.7%
State universities	1,394	-----	-----	-----
Illinois Community College Board	358	-----	-----	-----
Illinois Student Assistance Commission	425	-----	-----	-----
Other	29	-----	-----	-----
Human services	5,017	4,631	-386	-7.7%
Department of Human Services	3,934	-----	-----	-----
Department of Children and Family Services	857	-----	-----	-----
Department of Juvenile Justice	110	-----	-----	-----
Other agencies	117	-----	-----	-----
Public safety	1,439	1,370	-69	-4.8%
Department of Corrections	1,097	-----	-----	-----
Illinois State Police	271	-----	-----	-----
Other agencies	71	-----	-----	-----
All other agencies	1,641	1,291	-350	-21.3%
Total (excluding pension costs)	26,204	24,158	-2,046	-7.8%

Source: Governor's Office of Management and Budget

Human Services

The FY 2010 GF budget for human service agencies totaled \$5 billion, including \$3.9 billion for the Department of Human Services (DHS), \$857 million for the Department of Children and Family Services (DCFS), and \$110 million for the Department of Juvenile Justice. Various smaller agencies account for another \$117 million.

Budget cuts in DCFS programs for abused and neglected children would be limited by the provisions of various consent decrees arising from lawsuits against the department. For example, increases in the number of children assigned to each caseworker would violate the *B.H. v. McDonald* consent decree and would also jeopardize the department's accreditation. Last year, a federal court order blocked a "doomsday" budget proposal that would have cut GF appropriations for DCFS by more than 50 percent.

The bulk of the \$386 million in budget cuts for human service agencies would have to come from DHS. More than one-third of the DHS General Funds budget is tied to Medicaid funding, primarily for developmental disability services and home care services for people with physical disabilities.

Another area protected by federal funding is child care services. Illinois received an allotment of \$74 million in ARRA funds for child care. These supplemental funds, which the state will be using through FY 2011, may not be used to supplant state funds for child care assistance to low-income families. In order to comply with ARRA requirements, GF support for child care was maintained at \$641 million in FY 2010 and cannot be reduced below that level in the next fiscal year.

The remainder of the DHS budget (about \$1.7 billion) could be subject to cuts averaging about 20 percent. Among the most vulnerable programs are those that experienced substantial cuts — ranging from 10 percent to almost 25 percent — in the FY 2010 GF budget. These include:

- The Illinois Children's Mental Health Partnership, which is leading efforts to build a comprehensive and coordinated system of services to promote the healthy social and emotional development of children.
- Targeted Intensive Prenatal Case Management, which serves women at risk of having premature births or low-birth-weight babies.
- Teen REACH, an after-school program that provides prevention-focused services for some 25,000 at-risk youth.
- Healthy Families Illinois, which is designed to reduce child abuse and neglect and to promote healthy child development by providing home visiting services for families with infants and toddlers.
- Parents Too Soon, which serves new and expectant teen parents in high-risk communities through home visits and parent support groups.
- The Teen Parent Services program, which covers a population of pregnant or parenting low-income teens who do not have a high school diploma or its equivalent.
- The Homeless Youth program, which is administered by community-based agencies across the state, providing transitional living support, emergency and interim housing, and outreach and referral services.

- Comprehensive Community Based Youth Services, which provides crisis assistance to youth ages 11 to 17 who have run away from home or have been forced to leave home.

Conclusion

The preliminary budget numbers and prospective spending cuts for FY 2011 underscore the grim fiscal reality in Illinois. The FY 2010 budget included about \$1 billion of spending cuts in education, health care, human services, and other areas. Moreover, the state's huge backlog of unpaid bills is creating serious problems for school districts, public universities, community colleges, and other units of local government, as well as for community-based service providers across the state. A balanced approach to a responsible budget must include a significant amount new revenue.

The state fiscal crisis is a product of both short-term and long-term factors — a “cyclical deficit” resulting from the deep nationwide recession and a “structural deficit” produced by a state revenue system that cannot support established service levels and other ongoing obligations. The Governor has suggested a four-part strategy to deal with the fiscal crisis:

- attempting to secure continued federal assistance during the recession;
- utilizing short-term and intermediate-term borrowing to enable the state to pay its service providers on time;
- continuing efforts to curb costs, including restructuring of state retirement systems;
- generating new revenue, primarily from an income tax increase.

A systematic assessment of this strategy must await more specific details in the Governor's budget proposal on March 10. Although the Governor's budget address will set the agenda for this critical legislative session, the response of the General Assembly will determine the outcome. Abdicating responsibility for dealing with the state fiscal crisis until after the next election will only make matters worse. We face the very real possibility of a full-scale fiscal meltdown — with devastating consequences for children, families, and communities throughout Illinois.



About Voices for Illinois Children

Voices for Illinois Children works across issue areas to improve the lives of children of all ages throughout our state so they grow up healthy, nurtured, safe, and well-educated. For 20 years, Voices has been helping opinion leaders and policymakers understand the issues facing children and families. The Voices network weaves through the state, engaging community leaders and people who care passionately about children.

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative (BTPI) provides information and analysis to advocates and policymakers on a wide range of spending and revenue topics that have direct impact on the lives of children and families in Illinois. BTPI is part of the State Fiscal Analysis Initiative, a network of organizations coordinated by the Center on Budget and Policy Priorities in Washington, D.C.

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