



SPECIAL REPORT

Budget & Tax Policy Initiative



Illinois' Fiscal Year 2006 Budget

**Significant Education and
Health Care Increases,
Long-Term Fiscal Concerns**

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ILLINOIS' FISCAL YEAR 2006 BUDGET: Significant Education and Health Care Increases, Long-Term Fiscal Concerns

In the Spring 2005 legislative session, state policymakers were yet again confronted with a substantial deficit in crafting the FY2006 budget. The Governor's Office of Management and Budget estimated this deficit to be \$1.1 billion, though other experts put the figure at closer to \$2 billion.

In his February budget proposal, the Governor recommended several measures to close the deficit, including the following:

- Sweeping excess cash balances from up to 351 state funds into a new "School Endowment Fund" to generate approximately \$420 million, \$140 million of which would be used for FY2006 preK-12 appropriations.
- Doubling the number of gaming positions at existing riverboat casinos for another \$300 million in revenues for education.
- Eliminating a software sales tax loophole to create \$65 million in new revenues.
- Increasing tobacco taxes to provide \$155 million in new revenues.
- Reforming pension benefits for new state employees and apportioning \$745 million of future savings to FY2006.

Despite budget constraints, some programs for children and families received sizeable increases in the FY2006 budget:

- *Early learning programs.*
- *K-12 education.*
- *Health coverage for low-income, working families.*

Aside from a small number of changes in the state pension system, the Governor's budget-balancing plan was largely rejected. Pension reforms that did pass included scaling back end-of-career salary bumps for K-12 teachers, eliminating the alternative formula for new hires in the Department of Corrections who do not work in facilities or have inmate contact and eliminating the money-purchase option for new university employees.

The need for a solution to Illinois' school funding and revenue problems took center stage in the final weeks of the session. A compromise bill that addressed some of these issues, through raising the income tax and reducing the property tax, did make it out of committee in the Senate. Ultimately, however, the bill was not called for a vote. By failing to address the need for a long-range, comprehensive solution to Illinois' revenue problems, policymakers were forced to choose between cutting critical programs for children and families or finding another way to fund the budget.

To avoid deep cuts in state services and include important increases in education and health care, policymakers found another way to balance the budget. The FY2006 budget is balanced through a plan that will decrease payments into the five state employee pension systems by a total of \$2.3 billion over the next two years (\$1.2 billion for FY2006 and \$1.1 billion for FY2007), paying only about half of the scheduled amount due. Proponents say this decrease in payments is justified because even the limited pension reforms that were enacted will save tens of billions of dollars over the next several decades; opponents argue the pension "holiday" will actually wind up costing the state billions as these skipped payments will eventually have to be paid back with interest and will pass the costs onto future generations. For FY2006, the legislature also authorized transfers from 215 state funds to the General Revenue Fund totaling more than \$160 million to fill the budget hole. The General Revenue Fund also will receive transfers from an additional 23 state funds that are to be eliminated. As of May 31, 2005, these 23 funds had a total combined cash balance of approximately \$1 million.¹



Like the FY2005 budget, the FY2006 budget was accompanied by a series of memoranda of understanding detailing specific grants for education and human services as well as other budget agreements. These 66 memoranda total more than \$15 million.² In the end, the legislature passed an operating budget that remained generally flat overall (\$43.6 billion) but included very significant increases for education and health care. However, many other programs important to children and families were flat-funded, including many that had already been cut in years past.

Despite budget constraints, some programs for children and families received sizeable increases in the FY2006 budget:

- **Early learning programs:** A \$30 million increase in the Early Childhood Block Grant will extend preKindergarten to as many as 8,000 more at-risk 3- and 4-year-olds, as well as developmental services to even younger at-risk children. This fulfills Gov. Blagojevich's pledge to increase preschool funding by \$90 million over three years and represents another important step toward gradually ensuring access to preschool for all young children.
- **K-12 education:** Policymakers increased state funding for elementary and secondary education by nearly \$314 million. This includes more than \$215 million in additional general state aid, which will raise the "foundation level" by about \$200 per pupil; new funding for "mandated categoricals" such as special education; and increased funding for bilingual education of \$2 million.
- **Health coverage:** A \$5.75 million boost in state funds will finalize the planned implementation of the FamilyCare health insurance program. This increase will expand crucial coverage to as many as 74,000 more low-income, working parents by increasing eligibility from 133 percent to 185 percent of the federal poverty level. The KidCare health insurance program is available to children up to 200 percent of the federal poverty level. Both programs are funded through a very favorable federal match, which matches every 35 cents of state spending with 65 cents of federal money.

By failing to address the need for a long-range, comprehensive solution to Illinois' revenue problems, policymakers were forced to choose between cutting critical programs for children and families or finding another way to fund the budget.

While it is important to highlight this important progress for children and families in Illinois, it is equally important to note that even those programs that received increases in this year's budget remain well short of meeting needs. Funding of Illinois' K-12 education system still remains both inadequate and unfair. Increasing funding for some supports while decreasing funding for others can undermine the effectiveness of programs. Our state will continue to fall short in meeting the needs of Illinois children and families who depend upon state programs and services until our state tax system is reformed to bring in much-needed additional revenue and readjusted to do it more fairly.

Supplemental FY 2005 Appropriations

Supplemental appropriations were also made to the FY2005 budget to meet the spending needs of the fiscal year that was ending. In total, FY2005 appropriations were increased by \$166.2 million, \$83.6 million of which came from General Revenue Funds. Some of the departments benefiting from this supplemental appropriation include the Departments on Aging, Children and Family Services, Human Services, and Corrections. The Temporary Assistance to Needy Families (TANF) program received over \$20 million in additional funds for FY2005. Illinois' TANF caseload has experienced modest growth in the past year, though the overall caseload has decreased by more than 80 percent over the past 10 years. Prior to passage of the additional appropriation, over \$20 million was transferred from the child care budget to cover

FY2005 TANF shortfalls. It was significant that the legislature approved this supplemental funding to keep from funding one important program by shortchanging another crucial one.

Total Appropriations

Total operating budget appropriations for FY2006 increased by only 0.9 percent over FY2005, much less than the inflation rate of 2.8 percent.³ General Funds appropriations increased by 3 percent over FY2005, effectively just keeping pace with rising costs. The General Funds account for the largest portion of state funding and encompass most of the funding for education, human services, health care and public safety programs. Other state funds and federal funds decreased slightly compared with FY2005 appropriations. The FY2006 capital budget of more than \$11 billion (\$3.5 billion in new appropriations and \$7.9 billion in reappropriations) is not considered in this report except in the case of school construction funds.

Table 1. Operating Budget Appropriations (in billions of dollars)

	FY2005 ^a	FY2006	% Change
Total – All Funds	43.2	43.6	0.9
General Funds	23.6	24.3	3.0
Other State Funds	13.8	13.6	-1.4
Federal Funds	5.7	5.6	-1.8

a. FY2005 appropriations include supplemental funds appropriated during the Spring 2005 legislative session.

Agency Appropriations

Focusing on five departments that encompass a large portion of children’s and families’ programming, budget changes for FY2006 range from a decrease of 7.1 percent for the Department of Corrections to an increase of 3.8 percent for the Department of Healthcare and Family Services (formerly Public Aid), compared with their FY2005 appropriations. Final FY2006 appropriations for the Department of Children and Family Services remain essentially unchanged with a decrease of 0.1 percent compared with the FY2005 budget. Department of Human Services funding also remains relatively unchanged from the previous year, with an increase of only 1 percent. The Illinois State Board of Education’s FY2005 budget was increased by 3.2 percent for FY2006.

Table 2. Agency Appropriations (in millions of dollars)

	FY2004	FY2005 ^a	FY2006	% Change FY2005 to FY2006
Department of Children and Family Services (DCFS)	1,357	1,291	1,290	-0.1
Department of Corrections (DOC)	1,404	1,372	1,274	-7.1
Department of Healthcare and Family Services (DHFS)	13,741	14,638	15,187	3.8
Department of Human Services (DHS)	5,020	5,194	5,247	1.0
Illinois State Board of Education (ISBE)	7,596	8,061	8,316	3.2

a. FY2005 appropriations include supplemental funds appropriated during the Spring 2005 legislative session.



PreK-12 Education

Overall, the budget for elementary and secondary education increased by \$255 million (3.2 percent) from FY2005 appropriations.

The final FY2006 budget includes a significant increase in the state’s commitment to preK-12 education, with General Funds for ISBE increasing by nearly \$314 million (5.4 percent). This increase includes:

- A \$30 million increase for the Early Childhood Block Grant, which will make preKindergarten available to approximately 8,000 more at-risk children statewide as well as developmental services for even younger children.
- An increase of more than \$215 million in General State Aid/Hold Harmless funding. GSA funds the per-pupil foundation level—the basic building block of K-12 education funding in Illinois—and the “poverty grants,” which provide extra funding for low-income children’s learning.
- An increase of more than \$26 million for special education programs.
- A \$2 million increase for bilingual education.
- An increase of \$5 million total for career and technical education programs, truant alternative and optional education programs and regional safe schools.
- A new, \$12.2 million line item for After School Programs.
- A new, \$3 million line item for student vision screening in Chicago Public Schools.

The additional General State Aid dollars in the FY2006 budget result in an increase of \$200 in the per-pupil foundation level, from \$4,964 for FY2005 to \$5,164 this year. This is an important step in the right direction toward providing a foundation level of \$6,405, identified by the Education Funding Advisory Board as necessary to provide an adequate education.

The increase for the Early Childhood Block Grant will expand preK to as many as 8,000 more at-risk children. However, many thousands will still remain without services. Similarly, the increases in special education and bilingual education, while helping school districts meet the identified needs of thousands of Illinois children, leave many more children without services they need.

**Table 3. Select Education Appropriations
(in millions of dollars)**

Elementary and Secondary (ISBE)	FY 2005	FY 2006	% Change
ISBE Total	8,060.5	8,315.9	3.2
General Funds	5,809.3	6,123.0	5.4
General State Aid/Hold Harmless	3,712.3	3,927.4	5.8
Early Childhood Block Grant	243.3	273.3	12.3
Special Education	785.6	812.1	3.4
Bilingual Education	64.5	66.5	3.0
After-School Programs	0.0	12.2	N/A
Reading Improvement Block Grant	76.1	76.1	0.0
Technology for Success	4.1	5.0	20.2
Career and Technical Education	36.1	38.1	5.5
Truant Alternative and Optional Education	15.6	17.6	12.8
Regional Safe Schools	17.0	18.0	5.9
Fast Growth Districts	10.0	0.0	-100.0
Transitional Assistance^a	7.7	11.8	53.2

a. This is provided in order to offset any losses school districts may experience as a result of the elimination of or reduction in ISBE grants and programs

Policymakers approved only \$18 million in new school construction funds for FY2006. Bonds for these funds were made previously so no new bonds had to be issued for this appropriation. School construction funds may

again be considered in the fall veto session. There were no new school construction funds appropriated in FY2005.

Also, while the overall budget for K-12 education did increase, policymakers again failed to address the issue of inequity in the school funding system. Being so heavily reliant on property taxes to fund schools, Illinois remains near the bottom nationally in the state's share of total education funding, with a system that is among the most inequitable in the country.

Out-of-School-Time Supports

Overall, there is a lot of good news for out-of-school-time supports in the FY2006 budget. Funding for these valuable supports increased by more than 24 percent (10.3 million) compared with FY2005 appropriations.

A new line item was added to the ISBE budget for after school programs, with a corresponding appropriation of \$12.2 million. Of this \$12.2 million, \$2 million is expected to provide an increase to the Summer Bridges program and the rest will be allocated to various agencies around the state for programs that provide Illinois youth safe and supportive places to learn and socialize

**Table 4. Select Out-of-School Time Appropriations
(in millions of dollars)**

	FY2005	FY2006	% Change
After School Programs (ISBE)	0.0	12.2	N/A
Summer Bridges (ISBE)	22.2	22.2	0.0
Teen REACH/ After School Youth Support Programs (DHS)	20.4	18.5	-9.4

when they are not in school. The existing line item for Summer Bridges, which provides concentrated reading and writing help to students in preK through 6th grade during the summer, was flat-funded from FY2005 to FY2006. Teen REACH programs, largely provided through private nonprofit agencies, focus on improving academic performance, life skills education, parental involvement, and providing recreation, sports, cultural, and artistic activities as well as positive adult mentors for 12 to 17-year olds. After being slated for a \$2.6 million cut in the Governor's budget proposal, final FY2006 funding for Teen REACH After School Youth Programs sustained a \$1.9 million cut, compared with FY2005 appropriations (9.4 percent).

It is important to note that because factors outside the classroom account for so much of a student's academic success, essential services – such as those that combat child poverty, promote child health and adequate nutrition, offer affordable housing assistance, and provide out-of-school-time supports – must also be strengthened to truly ensure that every Illinois child has a fair chance to succeed in school and life.⁴

Child Care

The FY2006 DHS child care budget decreased slightly, compared with the FY2005 appropriation (0.3 percent). In the Governor's original budget proposal, child care services were to remain flat-funded, compared with FY2005 appropriations. However, the Governor's proposed budget called for cutting funding for Great START, a program that enhances salaries for qualified early childhood professionals who further their education and remain in the child care field. The Governor's proposal also would have eliminated state funding for Crisis Nurseries, which provide round-the-clock crisis intervention for distressed families.

**Table 5. Select Child Care Appropriations
(in millions of dollars)**

	FY2005	FY2006	% Change
Child Care (DHS)^a	693.2	690.8	-0.3
Child Care (DCFS)	21.1	21.1	0.0
Crisis Nurseries (DHS)	0.5	0.5	0.0

a. This category includes both state and federal funding for Child Care Services, Great START and Migrant Day Care.



Ultimately, these programs were preserved in the final budget agreement, though funding was taken away from the general child care services line item to make that possible. The DCFS line item for child care includes programs for children who have experienced abuse or neglect as well as services to high-risk families to prevent and reduce parental stress that could lead to abuse or neglect. These DCFS programs were flat-funded in the FY2006 budget.

Health Care and Income Supports

The medical assistance budget is increased by 3.2 percent in the FY2006 budget. Included in this total is expansion of the FamilyCare health insurance program. Illinois is one of just seven states that finance adult health coverage through the state children’s health insurance program – SCHIP.⁵ New FamilyCare eligibility rules will go into effect on January 1, 2006, when eligibility will expand from 133 percent to 185 percent of poverty (currently less than \$36,000 for a family of four). An estimated 74,000 additional low-income working parents will then be able to participate. The \$5.75 million in state money used for the FamilyCare expansion will be matched with about twice as much federal money for a total of more than \$16 million additional funding for the program.

The budget for Child and Adolescent Mental Health services is increased by 3 percent in FY2006. A strategic plan to strengthen community-based mental health care for children and adolescents was submitted by the Illinois Children’s Mental Health Partnership on June 30, 2005.

Additional resources are requested for school-based supports, trauma services, birth-to-five treatment, and early intervention services, as well as public campaign to reduce the barriers to prevention, early intervention and treatment services for children. A significant portion of the proposed services may be eligible for Federal Financial Participation under Medicaid.

Another recent development in health care access for children is an agreement-in-process between children’s health advocates and the Blagojevich administration to improve the Early Periodic Screening, Diagnosis and Treatment program (EPSDT). Under the agreement – sparked by a legal challenge (*Memisovski v. Maram*) – the state will put substantial new resources into the Medicaid program to make critical early services such as regular check-ups, immunizations and hearing exams more accessible to poor children through reforms that include increasing reimbursement rates for doctors and dentists who provide these services to Medicaid-eligible children. This is an important step toward putting Medicaid patients on more equal footing with the privately insured, and toward ensuring that children receive the full set of well-child visits and screens recommended by the Academy of Pediatricians.

**Table 6. Select Health and Income Support Appropriations
(in millions of dollars)**

	FY2005 ^a	FY2006	% Change
Medical Assistance (DHFS)^b	11,197.3 ^c	11,554.1	3.2
Child Support Enforcement (DHFS)	208.2	205.6	-1.3
Temporary Assistance to Needy Families (DHS)	132.4	151.2	14.2
Emergency Food and Shelter (DHS)	9.4	8.9	-5.0
Emergency Food (DHS)	5.3	5.3	-0.3
Child & Adolescent Mental Health (DHS)^d	64.0	65.9	3.0

a. FY2005 appropriations include supplemental funds appropriated during the Spring 2005 legislative session.

b. This includes Medical Assistance appropriations at the Department of Healthcare and Family Services except: the Excellence in Academic Medicine Act, Medical Care: Chronic Renal Disease, Medical Care: Sexual Assault Victims, and Medical Care: Hemophilia. Medical Assistance includes state and federal matching funds.

c. The FY2005 total includes \$850 million that was technically spent in FY2004 to obtain higher matching rates from the federal government. This money was, however, used for FY2005 programs.

d. This includes DHS Mental Health appropriations for the Block C&A, Children and Adolescent Grants, and Individual Care Grants. The increase includes a 3% cost of living adjustment for FY2006.

Intervention for Children at Risk

The FY2006 Department of Children and Family Services (DCFS) funding remained essentially flat, compared with the FY2005 budget. There was, however, substantial shifting within the department away from protective services. This is largely a reflection of the department's prioritizing spending to the large group of older children in the system who are less likely to be adopted or discharged to private guardianship than younger children in care. The Youth in Transition initiative is one of the programs that received an increase in the FY2006 budget.

**Table 7. Select DCFS Appropriations
(in millions of dollars)**

	FY2005 ^a	FY2006	% Change
DCFS Total	1290.5	1289.7	-0.1
Protective Services^b	80.2	77.9	-2.8
Family Support^c	37.9	37.2	-2.1
Foster Care	299.7	301.5	0.6
Institution/Group Homes	194.89	194.1	-0.4
Adoption	297.5	296.8	-0.2

a. FY2005 appropriations include supplemental funds appropriated during the Spring 2005 legislative session.
b. Protective Services includes the following items: Child Protection, Federal Child Protection Projects, Purchase of Children's Services, and Children's Advocacy Centers.
c. Family Support includes the Family Preservation Program and Family Centered Services Initiatives.

Community Health and Prevention

By investing in prevention programs now, Illinois saves money in the long term. Nevertheless, state funds for Early Intervention are reduced by \$3.2 million (5.1 percent) between FY2005 and FY2006, after a similar reduction last year. Early Intervention services help prevent or alleviate developmental delays and disabling conditions in children so that they can enter school ready to learn. Healthy Families Illinois and Parents Too Soon, home-visiting programs that provide parenting support services, were spared from cuts of 9 percent that had been proposed in the Governor's introduced budget. The Intensive Prenatal Performance Project, which offers intensive services to women with the most at-risk pregnancies, was substantially increased with an additional \$1.9 million in funding (59.4 percent).

**Table 8. Select Community Health and Prevention
Appropriations (in millions of dollars)**

	FY2005	FY2006	% Change
Early Intervention (DHS)^a	61.2	58.0	-5.1
Healthy Families Illinois (DHS)	9.7	9.7	0.2
Parents Too Soon (DHS)	10.9	10.9	0.0
Intensive Prenatal Performance Project (DHS)	3.1	5.0	59.4

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

Summary

On the spending side, the FY2006 budget looks good with substantial investments made for education and health care. Shorting the state pension funds to pay for these investments, however, creates a heavy burden for future budgets. The pension funds, already underfunded by \$35 billion,⁶ will receive less than half of the \$2.1 billion FY2006 payments required by the 1995 “ramp-up” plan, putting the funds even further behind. Pension deficiencies, unlike budget holes, can go unfilled for periods of time without precipitating an immediate crisis, but the size of the deferred pension debt that has accumulated over the years threatens to overwhelm future state budgets.

Comprehensive revenue reforms will be needed in future years to sustain the level of services funded by this year’s budget, to fully fund an adequate and equitable education for all children, to provide human services and also to meet the state’s constitutionally guaranteed obligation to its pensioners. Shorting the pension obligation payment schedule has provided only a short-term reprieve for the next two years, leaving a void to be filled in FY2008 and beyond.

**A copy of our report on the FY2006 budget proposal is available online at www.voices4kids.org/FY2006_Budget.pdf*

ENDNOTES

¹ A detailed summary of the FY2006 fund sweeps can be found at www.voices4kids.org/B&T_publications.htm.

² A detailed summary of the FY2006 memoranda of understanding can be found at www.voices4kids.org/B&T_publications.htm

³ Consumer Price Index, May 2004-May 2005.

⁴ Rothstein, Richard. “Class and Schools: Using Social, Economic, and Educational Reform to Close the Black-White Achievement Gap.” *Economic Policy Institute*. 2004. National Commission on Teaching America’s Future. “Doing What Matters Most.” 1997.

⁵ “SCHIP Program Enrollment: Dec. 2003 Update”, Kaiser Commission on Medicaid and the Uninsured.

⁶ “Illinois State Pension Needs Put Pressure on the State Budget,” *Fiscal Focus Quarterly*, February 2005.

This special report was prepared as a part of Voices for Illinois Children's Budget & Tax Policy Initiative. Maneesha Date, policy analyst for 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. To learn more about this issue, please contact Maneesha Date at 312-516-5568 or mdate@voices4kids.org.

About Voices for Illinois Children

Voices for Illinois Children is building a better future for children by working with families, communities and policymakers to ensure that all children grow up healthy, loved, safe and well educated. Voices is a statewide, privately funded, non-partisan public awareness and advocacy organization that builds support for practical public policies that improve the lives of children. A recognized leader in child advocacy, Voices mobilizes support for initiatives by conducting research, developing policies, building coalitions, offering training and helping people articulate their support for 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 & 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 Budget & Tax Policy Initiative director.

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