



SPECIAL REPORT

Budget & Tax Policy Initiative



The Governor's FY2008 Budget Proposal:

Access to Health Care and Education are Featured

April 2007

This special report was prepared as a part of Voices for Illinois Children’s Budget & Tax Policy Initiative. Maneesha Date, senior 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 works across all issue areas to improve the lives of children of all ages throughout the state, making sure 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, involving community leaders and people who care passionately about children. As a privately funded organization, Voices has ensured earlier investments in children and has improved education, health care and other vital services. Jerome Stermer is President of Voices for Illinois Children, and Craig R. Culbertson is Chair of the Board of Directors.

| What’s Inside | |
|--|-------------|
| Topic | Page |
| Appropriations and Revenues | 2 |
| Spending by Major Purpose and State Agency | 3 |
| PreK-12 Education and Child Care | 4 |
| Health Care | 7 |
| Family Economic Security | 8 |
| Prevention and Community Health | 8 |
| Child Protection and Child Welfare | 9 |
| Out-of-School-Time Youth Supports | 10 |
| Juvenile Justice | 10 |
| Revenue-Raising Measures | 11 |
| Conclusion | 12 |
| Appendix: Historical Funding Trends | 13 |

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative of Voices for Illinois Children 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. The Budget & Tax Policy Initiative helps Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul. Larry Joseph, Ph.D. is Director of the Budget & Tax Policy Initiative.

Voices is a member of the State Fiscal Analysis Initiative (SFAI) whose members seek to broaden the debate on budget and tax policy through public education and the encouragement of civic engagement on these issues. The SFAI network is coordinated by the Center on Budget and Policy Priorities, a Washington, D.C.-based research and strategic policy institute that works on a range of federal and state issues. Voices is also a member of the Economic Analysis and Research Network (EARN), coordinated by the Economic Policy Institute, a Washington, D.C.-based think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy.

The Budget & Tax Policy Initiative is funded by the Ford Foundation, Annie E. Casey Foundation and Chicago Community Trust. We thank them for their support but acknowledge the findings and conclusions presented are those of Voices for Illinois Children alone and do not necessarily reflect the opinions of these foundations.

THE GOVERNOR'S FY 2008 BUDGET PROPOSAL: Access to health care and increased support for education are featured

On March 7, 2007, Governor Rod Blagojevich presented his FY 2008 state operating and capital budget proposals. Health care and education are top priorities for the coming year.

Highlights of the Proposed Budget

Health Care. The Governor proposes Illinois Covered – an initiative to expand access to affordable health insurance. The budget includes a FY 2008 appropriation of \$374 million for Illinois Covered and related health care system improvements. When fully implemented, Illinois Covered would cost about \$2.3 billion annually.

The Governor proposes Illinois Covered – an initiative to expand access to affordable health insurance – and nearly \$1.5 billion in new funding for PreK-12 education.

Education. The Governor proposes nearly \$1.5 billion in new funding for PreK-12 education initiatives, an increase of more than 17 percent. Programs receiving an increase in the proposal include General State Aid (19 percent), the Early Childhood Block Grant (22 percent) and special education (36 percent). The Governor also proposes a capital budget with a \$1.2 billion recommendation for education, including \$500 million for school construction and \$10 million for preschool capital projects.

The Governor recommends that Illinois lease the state lottery, issue pension obligation bonds, adopt a gross receipts tax and create a new payroll tax on employers.

Pensions. With an unfunded pension liability of more than \$42 billion,¹ the state retirement systems would continue to require significantly larger general funds appropriations in upcoming years in order to adhere to the *current* funding schedule.² To help ease the pressure of ever-growing annual payments in the short term, the Governor proposes a transfer of \$26 billion into the retirement systems from leasing the state lottery for an estimated \$10 billion and issuing \$16 billion in pension obligation bonds.

Revenues. In order to raise the funds necessary for the Illinois Covered health care plan, increased support of PreK-12 education and debt service for the capital program, the Governor proposes that Illinois adopt a gross receipts tax (GRT) and create a new payroll tax on employers. The GRT would be levied on the total gross revenues of a business with exemptions for certain businesses and products.

Voices for Illinois Children believes strongly in the spending priorities for improving education, expanding access to health care for families and stabilizing the state's overall budget picture by addressing pension obligations. Voices has also long supported reform of the state revenue system to adequately support programs for children and families. The current Illinois revenue system does not generate adequate revenues to maintain the existing level of services in future years.³ The state's tax system also is *regressive* – it takes a greater share of income from low- and middle-income taxpayers than from the wealthy.⁴ Policymakers should adopt a plan of revenue initiatives that raises sufficient funds to meet critical needs, while distributing responsibility among taxpayers as broadly and fairly as possible.



Appropriations and Revenues

Appropriations

Appropriations from the state's "general funds," which provide most of the spending for education, health care, human services and public safety programming, increase by more than \$3.1 billion in the Governor's proposal.

| Table 1. Operating Budget Appropriations (in billions of dollars) | FY2007 Approp. | FY2008 Proposal | % Change FY07-FY08 |
|---|-----------------------|------------------------|---------------------------|
| Total – All Funds | 45.8 | 49.1 | 7.2 |
| General Funds | 25.7 | 28.9 | 12.1 |

Revenues

General funds revenue projections for FY 2008 are nearly \$2.2 billion higher than FY 2007 expectations.

| Table 2. Revenues (in billions of dollars) | FY2007 Estimated | FY2008 Estimated | % Change FY07-FY08 |
|--|-------------------------|-------------------------|---------------------------|
| Total – All Funds | 48.1 | 49.7 | 3.4 |
| General Funds | 29.4 | 31.6 | 7.4 |

Increased revenue projections are due in large part to the Governor's proposed gross receipts tax, which is estimated to bring in more than \$2.6 billion for FY 2008. Revenues from the personal and corporate income tax, sales taxes and federal receipts are also expected to increase. Overall, state-source general funds base revenues are projected to increase by \$2.8 billion over FY 2007 estimates. Personal and corporate income tax revenues are estimated to increase by \$389 million and \$45 million, respectively. FY 2008 sales tax revenue is also predicted to increase by \$221 million. Revenues from public utility taxes are expected to decrease by \$5 million and revenues from the cigarette tax and the inheritance tax to the general funds are expected to remain flat in FY 2008. Federal receipts to the general funds are expected to increase by \$286 million over FY 2007.

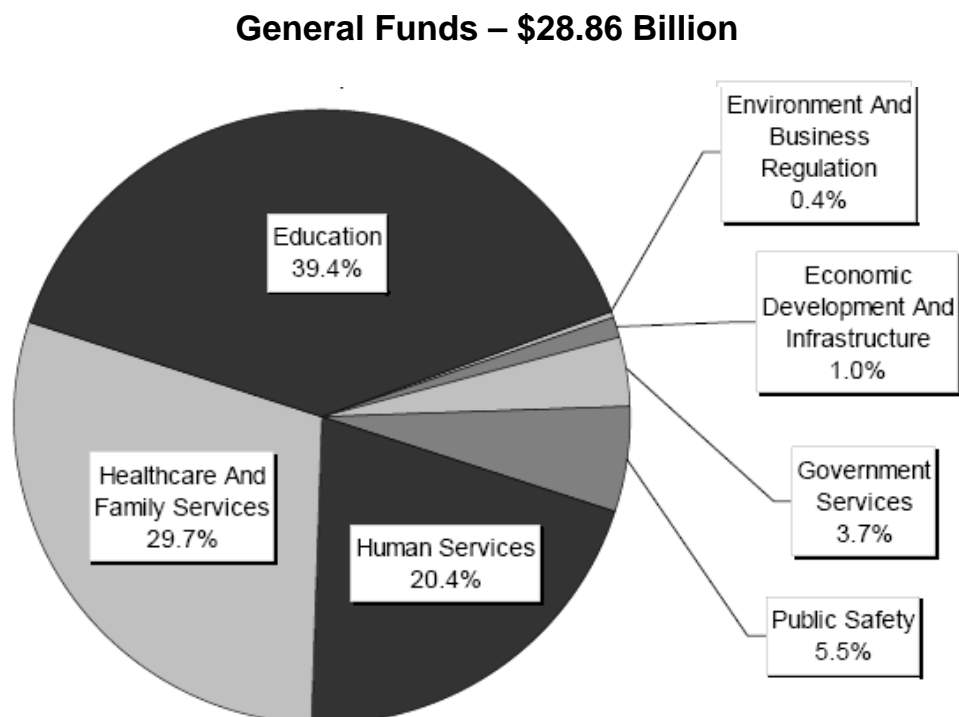
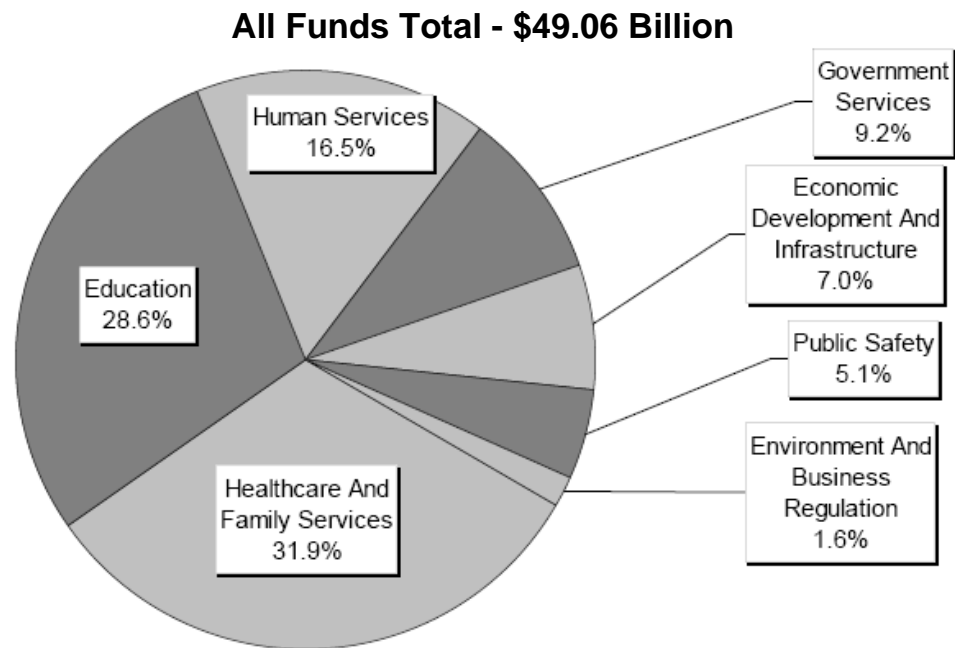
| Table 3. General Funds Base Revenues (in millions of dollars) | FY2007 Estimated | FY2008 Projected | % Change FY07-FY08 |
|---|-------------------------|-------------------------|---------------------------|
| Total State Sources | 23,690 | 26,490 | 11.8 |
| Individual Income Taxes | 9,130 | 9,519 | 4.3 |
| Corporate Income Taxes | 1,688 | 1,733 | 2.7 |
| Sales Taxes | 7,356 | 7,577 | 3.0 |
| Public Utility Taxes | 1,110 | 1,105 | -0.5 |
| Cigarette Taxes | 350 | 350 | 0.0 |
| Inheritance Tax | 255 | 255 | 0.0 |
| Gross Receipts Tax | 0 | 2,626 | N/A |
| Other State Sources^a | 3,801 | 3,325 | -12.5 |
| Total Federal Sources | 4,803 | 5,089 | 6.0 |

a. Includes transfers in and adjustments

Spending by Major Purpose and State Agency

Education, health care and human services account for nearly 90 percent of FY 2008 general funds appropriations. The figures below provide a complete breakdown of spending patterns by major purpose.

**Figure 1. Fiscal Year 2008 Operating Appropriations by Major Purpose⁵
Percentage of Total**





Focusing on five departments that encompass a large portion of child, family and community programming, proposed budget changes between FY 2007 and FY 2008 range from increases of less than 1 percent to 17 percent (see Table 4). The proposed FY 2008 appropriation for the Department of Healthcare and Family Services (DHFS), a 6.3 percent increase over FY 2007, does not include funding for Illinois Covered. The \$374 million recommended for Illinois Covered, as well as related health care system improvements, are included separately in the operating budget and are to be appropriated contingent on the passage of the Illinois gross receipts tax.

Table 4. Agency Operating Budget Totals: FY2007 and FY2008 (in millions of dollars)

| Agency | | FY2007 Appropriation | FY2008 Proposed | % Change FY07-FY08 |
|--------------------------------|---------------|-------------------------|--------------------|-----------------------|
| Children and Family Services | All Funds | 1,326 | 1,331 | 0.3 |
| | General Funds | 776 | 890 | 14.8 |
| Healthcare and Family Services | All Funds | 16,044 | 17,050 | 6.3 |
| | General Funds | 7,764 | 8,420 | 8.5 |
| Human Services | All Funds | 5,434 | 5,650 | 4.0 |
| | General Funds | 3,994 | 4,176 | 4.6 |
| Juvenile Justice | All Funds | 126 | 138 | 9.3 |
| | General Funds | 117 | 125 | 7.1 |
| State Board of Education | All Funds | 8,749 | 10,239 | 17.0 |
| | General Funds | 6,531 | 8,028 | 22.9 |

PreK-12 Education and Child Care

Overall, the Governor recommends a funding increase of 17 percent (nearly \$1.5 billion) for the Illinois State Board of Education (ISBE). This reflects a 22.9 percent increase (\$1.5 billion) in spending from the state's general funds, flat funding from other state funds and a slight decrease in federal funds.

A number of programs receive an increase in the Governor's proposal including:⁶

- *Preschool for All* – an additional \$69 million in new funding for the Early Childhood Block Grant making early learning services available to an additional 12,000 children and strengthening crucial development services for at-risk infants and toddlers.
- *General State Aid* – an additional \$808 million available to school districts, increasing the per-pupil foundation level by \$686 to \$6,020.
- *Special Education* – an increase of more than \$302 million for special education services, including funding to increase the reimbursement rate for special education teachers, which has remained unchanged for more than 20 years.

Early Childhood Education

Over the past four years, the Early Childhood Block Grant has been increased by \$135 million to provide tens of thousands more youngsters with early learning services. For FY 2007, the Governor and legislators acted on the recommendations of the Illinois Early Learning Council to move towards the goal of ensuring preschool access for *all* 3- and 4-year-olds whose parents want them to participate. The Governor recommends an additional \$69 million for the block grant for FY 2008 to continue implementation of the multi-year Preschool for All initiative. This would allow 12,000 more 3- and 4-year olds to participate, as well as strengthen crucial development services for at-risk infants and toddlers.

K-12 Education

The largest component of state spending for elementary and secondary education is General State Aid (GSA). Local school districts can use these unrestricted funds as they see fit. GSA is allocated to school districts on the basis of a set of formulas that consider such factors as the local property tax base, overall student enrollment and the percentage of students from low-income families. Each year, the Illinois State Board of Education (ISBE) adjusts the *foundation level* – a guaranteed minimum per-pupil expenditure from state and local sources. For most school districts, GSA per-pupil is the difference between the foundation level and the per-pupil amount of local resources (primarily property taxes). The state also distributes supplemental grants based on the number of low-income students in a school district. By taking into account both the population a district serves and the district’s capacity to cover education costs with local resources, GSA partly compensates for the enormous disparities in property wealth across local school districts.

The Governor’s budget recommends an increase in GSA of more than \$808 million, which would allow the foundation level to rise from \$5,334 to \$6,020. While the proposed foundation level remains short of the \$6,405 recommended by the Education Funding Advisory Board (EFAB) for FY 2006 as necessary to provide an adequate education, it represents an important step toward providing all Illinois children with a quality education (see Table 6).

The Governor recommends an increase of more than \$302 million in special education funding for FY 2008. This includes \$209 million to increase the reimbursement rate for special education teachers, which has remained unchanged since 1985, by nearly 65 percent.

**Table 5. Education and Child Care Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program (agency) | FY2007 Approp. | FY2008 Proposal | % Change |
|--|----------------|-----------------|----------|
| Total General Funds (ISBE) | 6,531.0 | 8,027.7 | 22.9 |
| General State Aid^a (ISBE) | 4,166.3 | 4,974.8 | 19.4 |
| Special Education (ISBE)^b | 837.8 | 1,140.0 | 36.1 |
| Early Childhood Block Grant (ISBE) | 318.3 | 387.6 | 21.8 |
| Literacy Programs (ISBE) | 76.1 | 76.1 | 0.0 |
| Child Care (DHS)^d | 733.8 | 766.9 | 4.5 |
| Transportation (ISBE)^e | 612.7 | 670.9 | 9.5 |
| Children’s Mental Health Partnership (ISBE) | 3.0 | 3.0 | 0.0 |
| Targeted Interventions (ISBE) | 0.0 | 100.0 | N/A |
| Program Expansion (ISBE)^f | 0.0 | 65.2 | N/A |
| Teacher Quality Incentives (ISBE) | 0.0 | 40.0 | N/A |
| Statewide Mentoring and Induction (ISBE) | 0.0 | 40.0 | N/A |
| Full-day Kindergarten (ISBE) | 0.0 | 10.0 | N/A |
| Rural Education Initiatives (ISBE) | 0.0 | 10.0 | N/A |

- a. This item represents both General State Aid and General State Aid - Hold Harmless funding.
- b. This item includes funding for Extraordinary Special Education, the Phillip J. Rock Center, Disabled Students Services, Materials and Tuition and all Summer School Payments. It does not include funding for Disabled Students Transportation or the Blind/Dyslexic Persons Reading Program.
- c. This preschool funding comes from the federal Individuals with Disabilities Act.
- d. This item includes funding for Child Care Services, Great Start and Migrant Day Care services.
- e. This includes reimbursement for disabled student transportation and regular/ vocational student transportation.
- f. This includes funding for textbooks, technology, assessment and reading.

The FY 2007 ISBE budget included \$3 million for the Children’s Mental Health Partnership’s priorities for education-related activities. The Governor recommends level funding for the Children’s Mental Health Partnership’s priorities for FY 2008 (see Table 5).

The Governor also proposes a number of new education initiatives for FY 2008 (see Table 5). He recommends \$100 million for “proven strategies” to be used by Illinois school districts to raise student achievement. Funds are also appropriated to support and expand key programs including a model program for schools to better serve homeless students. An additional \$80 million is included for programs to improve teacher quality and begin a statewide mentoring initiative. The FY 2008 budget includes \$10 million to help school districts implement full-day kindergarten and another \$10 million for a rural learning initiative.

Table 6. General State Aid Foundation Level

| | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 ^a | EFAB |
|----------------------------------|-----------|-----------|-----------|-----------|------------------------|----------------|
| Foundation Level | \$4,810 | \$4,964 | \$5,164 | \$5,334 | \$6,020 | \$6,405 |
| Change from Previous Year | \$250 | \$154 | \$200 | \$170 | \$686 | N/A |

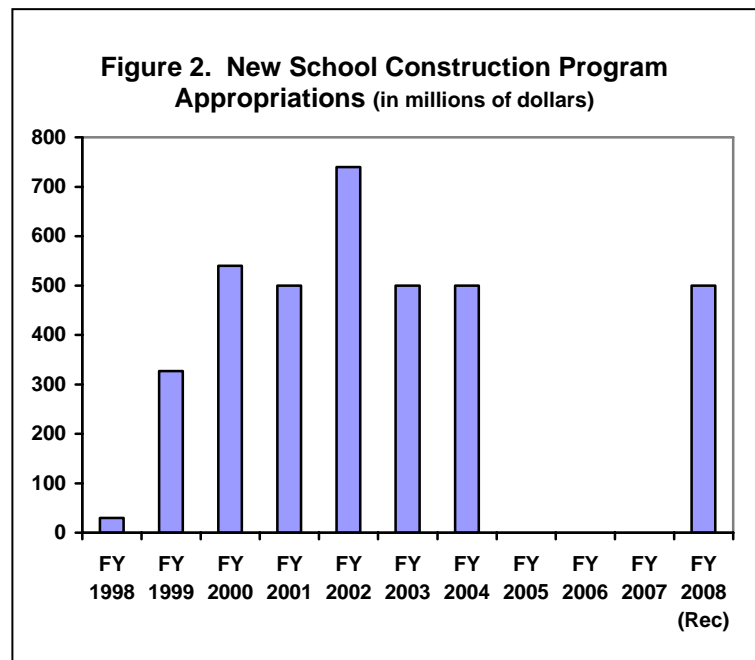
a. Data for the 2007-2008 school year are based on the Governor’s Fiscal Year 2008 budget request.

Education Capital Programs

The capital programs recommended in the Governor’s FY 2005-2007 budget proposals were not funded. The proposed capital budget for FY 2008 includes \$500 million in new appropriations for school construction and another \$50 million for school maintenance grants. The proposed FY 2008 capital budget also includes \$10 million for preschool projects in both schools and community-based settings, a critical component of Illinois’ march toward the Preschool for All goal.

Child Care

The Child Care Assistance Program in the Department of Human Services (DHS) served an average of 192,500 children per month in FY 2006 through subsidies for low-income working parents.⁷ Total DHS child care appropriations are increased by more than \$33 million in the Governor’s FY 2008 budget proposal. This new funding will be used to increase reimbursement rates for all providers and for the introduction of a “tiered reimbursement” system to encourage quality improvements. Appropriations for Great START – a program that enhances salaries for qualified early childhood professionals who further their education while remaining in their jobs – remain flat in the FY 2008 budget proposal. However, that program’s waiting lists are expected to be eliminated as previously appropriated funds are released.



Health Care

Over the past several years, Illinois has greatly expanded access to publicly funded health care coverage. Eligibility for KidCare and FamilyCare – programs that provide low-income children and families with no-cost or low-cost health insurance coverage – has been extended to families with incomes up to 200 percent and 185 percent of the federal poverty level, respectively. In July 2006, KidCare was subsumed under the new All Kids health insurance program. All Kids is designed to provide access to comprehensive health insurance for all uninsured Illinois children, including those who were not eligible for KidCare, through a sliding-scale premium structure.

**Table 7. Health Care Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (Agency) | FY2007 Approp. | FY2008 Proposal | % Change |
|---|-------------------|--------------------|-------------|
| Medical Assistance General Funds (DHFS)^a | 6,547.8 | 7,116.5 | 8.7 |
| Illinois Covered^b | N/A | 374.0 | N/A |
| <small>a. This total includes General Funds only. b. This includes the Illinois Covered initiative as well as related health care system improvements.</small> | | | |

Medical Assistance

The Illinois Department of Healthcare and Family Services (DHFS) administers a set of medical assistance programs (including Medicaid, FamilyCare and All Kids) that provide health benefits to more than 2 million Illinois residents. The Governor's FY 2008 budget would increase general funds appropriations for DHFS medical assistance by nearly \$569 million (see Table 7).

Illinois Covered

The Governor has proposed further expanding health insurance coverage through the Illinois Covered plan, which includes several major components. "Illinois Covered Choices" would be an affordable and comprehensive health insurance product offered through private carriers. The insurance could be purchased by individuals whose employers do not offer coverage and by small businesses.

Individuals and families with incomes up to 400 percent of the federal poverty level (or about \$80,000 for a family of four) could receive state-funded premium subsidies under Illinois Covered Choices or through employer-sponsored plans. Illinois Covered would also extend free public coverage to childless, non-elderly adults who are living below the poverty level and who do not qualify for Medicaid or have access to employer-sponsored insurance. In addition, eligibility for FamilyCare would be expanded from 185 percent to 400 percent of the federal poverty level (or from about \$35,000 to \$80,000 for a family of four). Finally, the proposal includes an employer mandate. Businesses that spend less than 4 percent of their payroll on health insurance coverage would be subject to a 3 percent payroll tax.

The Governor recommends further expanding health insurance coverage through Illinois Covered with a FY2008 appropriation of \$374 million.

Illinois Covered would be phased in over several years, with an appropriation of \$374 million for FY 2008. When the plan is fully implemented, the estimated annual cost to the state would be \$2.3 billion - \$1.2 billion from the gross receipts tax and \$1.1 billion from the payroll tax. It is expected that the plan would cover an additional 515,000 adults – about one-third of those currently uninsured.



Family Economic Security

The Temporary Assistance for Needy Families (TANF) program provides financial assistance for pregnant women and families with one or more dependent children. Proposed FY 2008 appropriations for TANF estimate a 17 percent decline in funding due to decreased participation. The maximum monthly cash grant for a family of three was \$396 in 2006 and that amount has not been increased since 2002.

The Governor recommends an increase of nearly \$11 million for child support enforcement in his FY 2008 budget proposal. The Department of Healthcare and Family Services reported record-breaking child support collections of over \$1 billion for FY 2005 and \$1.1 billion for FY 2006. The proposed funding, however, remains lower than in FY 2003 (see Table 17).

Funding for Home Energy Assistance has increased significantly in recent years. The state's Energy Assistance Act and the federal Low Income Home Energy Assistance Program are designed to help eligible low-income homeowners and renters meet their home heating and/or cooling needs. The Governor recommends a slight increase in state Energy Assistance Act funding for FY 2008.

**Table 8. Income Supports:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (Agency) | FY2007 Approp. | FY2008 Proposal | % Change |
|---|----------------|-----------------|----------|
| TANF (DHS) ^a | 137.1 | 113.6 | -17.1 |
| Child Support Enforcement (DHFS) | 212.1 | 223.0 | 5.1 |
| Emergency Food and Shelter (DHS) | 8.9 | 8.9 | 0.0 |
| Emergency Food Program (DHS) | 5.3 | 5.3 | 0.0 |
| Home Energy Assistance (DHS) ^a | 399.9 | 400.2 | 0.1 |

a. This line item is comprised largely of funding for cash assistance.
b. This includes funds for grants to eligible recipients under the state Energy Assistance Act and the federal Low Income Home Energy Assistance Program.

Prevention and Community Health

The Department of Human Services supports a number of prevention programs through community health grants, often reducing the need for future spending on more intensive services.

The Illinois Children's Mental Health Partnership was created in 2003 to develop and implement a statewide strategic plan. Finalized in 2005, the plan to build a comprehensive and coordinated mental health system includes prevention, early intervention and treatment for children from birth to age 18. The Partnership made an initial recommendation of \$19.5 million for FY 2007 for a variety of initiatives, including mental health consultation, education-related activities, early intervention and treatment services, as well as a statewide public

**Table 9. Prevention and Community Health Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (DHS) | FY2007 Approp. | FY2008 Proposal | % Change |
|--|----------------|-----------------|----------|
| Children's Mental Health (DHS/ISBE) ^a | 71.1 | 78.1 | 9.8 |
| Early Intervention (DHS) ^b | 61.0 | 71.6 | 17.4 |
| Parents Too Soon (DHS) | 11.2 | 11.2 | 0.0 |
| Healthy Families Illinois (DHS) | 10.0 | 10.0 | 0.0 |
| Intensive Prenatal Performance Project (DHS) | 5.0 | 5.2 | 3.0 |

a. This category includes mental health children and adolescent grants, individual care grants and teen suicide funding in the Department of Human Services and Children's Mental Health Partnership funds in both the Department of Human Services and the State Board of Education.
b. Totals reflect state appropriations to the Early Intervention Revolving Fund. Federal Medicaid and Early Intervention dollars are also available.

awareness campaign. The FY 2007 budget included \$5 million for the Children’s Mental Health Partnership’s priorities (\$3 million in the Illinois State Board of Education and \$2 million in Department of Human Services). The Governor recommends level funding for the Children’s Mental Health Partnership’s priorities for FY 2008. The proposal includes a separate, \$7 million increase for individual care grants, funding to the parents or guardians of children with severe mental illness for residential or intensive community services, and represents an increase of more than 28 percent for this program.

Illinois’ Early Intervention services respond to developmental challenges and disabling conditions in very young children. The recommended appropriation of state funds for Early Intervention increases by \$10.6 million for FY 2008. This includes funding for a 3 percent cost-of-living adjustment for providers. The Intensive Prenatal Performance Project, which offers intensive services to women with the most at-risk pregnancies, also receives a cost-of-living adjustment.

Healthy Families Illinois, a home-visiting program that provides parenting support services for more than 3,000 at-risk families, remains funded at \$10.0 million in the FY 2008 budget proposal. The budget proposal also calls for flat funding for Parents Too Soon, a pregnancy prevention and parenting support program for teens. Funding for both programs has been increased by only 3 percent since FY 2003 (see Table 18).

Child Protection and Child Welfare

The Department of Children and Family Services (DCFS) protects children’s well-being by intervening when they experience harm or the threat of being harmed. The agency’s total budget recommendation for FY 2008 reflects a funding increase of less than 1 percent.

Since FY 2000, the number of children in substitute care and subsidized adoption and guardianship has continued to decline. Total substitute care caseloads have decreased by more than 46 percent in this period. The projected caseload for FY 2008 is 1 percent less than the FY 2007 estimate. The number of cases in the home of a relative, specialized foster care and regular foster care are each expected to decrease by 0.9 percent in FY 2008 and the number of independent-living cases is expected to increase by 0.7 percent. The number of residential placements is projected to decrease by 4.7 percent.

Protective services receive an increase of more than \$6 million in the FY 2008 budget proposal. The Governor also recommends increases for institution/group homes (nearly \$17 million) and for foster care (nearly \$20 million).

Adoption funding is reduced by more than \$11 million in the FY 2008 budget proposal, representing its lowest funding level since FY 2003. Likewise, the budget proposal also includes decreased funding for family support services, down more than \$2 million.

**Table 10. DCFS Program Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (DCFS) | FY2007 Approp. | FY2008 Proposal | % Change |
|--------------------------------|----------------|-----------------|----------|
| DCFS Total | 1,326.2 | 1,330.6 | 0.3 |
| Protective Services | 82.1 | 88.5 | 7.8 |
| Family Support | 38.0 | 35.5 | -6.5 |
| Foster Care | 311.4 | 331.2 | 6.4 |
| Institution/Group Homes | 208.6 | 225.2 | 8.0 |
| Adoption | 289.3 | 278.2 | -3.8 |
| Child Care^a | 23.2 | 25.9 | 11.7 |

a. This item includes funding for Protective/Family Maintenance Day Care.



DCFS also administers several day care programs. Protective Service Day Care is provided to children in indicated cases of abuse or neglect to help prevent their challenges. Family Maintenance Day Care services are provided to high-risk families whose children are in open DCFS cases to prevent and reduce parental stress that could lead to child abuse or neglect. These programs receive a \$2.7 million increase in the Governor’s budget proposal (see Table 10).

Out-of-School-Time Youth Supports

Teen REACH and Summer Bridges are two important, state-funded, out-of-school-time supports for youth who need extra help. Teen REACH offers prevention-focused activities to high-risk children up to 17 years of age. In the Governor’s FY 2008 budget proposal, appropriations for Teen REACH are increased by \$500,000. The Summer Bridges program provides a concentrated curriculum of summertime reading and writing to students through sixth grade who are at risk of academic failure. This program remains flat-funded from FY 2007. Both programs had higher funding levels in FY 2003 (see Table 20).

**Table 11. Community School Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (Agency) | FY2007 Approp. | FY2008 Proposal | % Change |
|--|-------------------|--------------------|-------------|
| Teen REACH (DHS) | 19.1 | 19.6 | 2.6 |
| Summer Bridges (ISBE) | 22.2 | 22.2 | 0.0 |
| Mentoring, After School and Student Support Programs (ISBE) | 24.1 | 24.1 | 0.0 |

The Mentoring, After School and Student Support Programs line item was created in the FY 2006 Illinois State Board of Education budget with an appropriation of \$12.2 million. It was significantly increased in FY 2007 to \$24.1 million and remains at that level for FY 2008. This budget line largely reflects spending for legislators’ local member initiatives.

Juvenile Justice

The Department of Juvenile Justice (DJJ) was created from the juvenile justice division of the Department of Corrections in FY 2007. The Governor proposes a 4.5 percent overall increase for juvenile facilities in DJJ, which reflects an increase for all of the facilities. The Governor proposes substantial new funding for implementation of a new, case-management-based Aftercare system targeted at youth development and successful re-entry into society. Appropriations for juvenile justice planning and action grants in the Department of Human Services (DHS) are flat in the proposed budget. The Governor’s proposal also includes \$3 million to establish the Alternative Youth Services program in DHS to help at-risk youth avoid the juvenile justice system.

**Table 12. Juvenile Justice Funding:
FY2007 and FY2008 (in millions of dollars)**

| Program Area (Agency) | FY2007 Approp. | FY2008 Proposal | % Change |
|--|-------------------|--------------------|-------------|
| Juvenile Facilities (DJJ) | 102.1 | 106.7 | 4.5 |
| Aftercare Services | 8.3 | 10.4 | 24.7 |
| Juvenile Justice Programs (DHS)^a | 13.4 | 13.4 | 0.0 |
| Alternative Youth Services (DHS) | 0.0 | 3.0 | N/A |

a. This includes funding for Juvenile Justice Planning and Action grants.

Revenue-Raising Measures

In order to raise the funding necessary for the programs outlined in this report, the Governor has recommended several revenue-raising measures. His proposal includes adopting a gross receipts tax, leasing the state lottery, issuing pension obligation bonds and creating a new payroll tax on employers.

Gross Receipts Tax

A gross receipts tax (GRT) would be levied on the total gross revenues of a business. The Governor has recommended that Illinois phase-out the corporate income tax and adopt a gross receipts tax effective January 1, 2008. During the phase-out of the corporate income tax, businesses will receive a 100 percent credit against all corporate income taxes paid and local governments would continue to receive the revenue that they currently receive from the corporate income tax.

As originally proposed, the plan would exempt all businesses with less than \$1 million in annual Illinois sales as well as specific businesses and products including retail food and drug, not-for-profit organizations, gaming, exports, insurance and Medicaid payments. Goods-producing businesses – including manufacturers, wholesalers, retailers and construction – would pay a 0.5 percent GRT while all other businesses, primarily service-based businesses, would pay a 1.8 percent GRT. The gross receipts tax plan would generate more than \$6 billion per year once it is fully phased-in and is expected to bring in more than \$2.6 billion for FY 2008.

By the end of March, the Governor had revised his GRT plan. The new proposal increases the tax rate to 0.85 percent for manufacturers, 1.95 percent for service-based businesses and exempts businesses with less than \$2 million in annual Illinois sales. The revised plan would bring in \$7.6 billion annually and provide property-tax relief in addition to funding for health care and education.

Proponents argue that this broad-based, low-rate tax would produce significantly more revenues from business than the current corporate income tax. Opponents argue that businesses will pass these costs on to consumers in the form of higher prices and that those businesses that rely on multiple-step production and those with small profit margins are unfairly disadvantaged.

Pension Funding Plan

Two years ago, facing a budget deficit estimated to be \$1.1 billion,⁸ the Governor and the General Assembly enacted some pension reforms and reduced payments into the five state pension systems by \$1.2 billion for FY 2006 and \$1.1 billion for FY 2007. For FY 2008, the Governor recommends leasing the state lottery for \$10 billion and issuing \$16 billion in pension obligation bonds, with proceeds transferred to the systems. These transfers would shift some of the pension liabilities to general obligation debt and help ease the pressure of growing annual contributions to the pension systems in the short term.⁹ The \$26 billion infusion would also raise the system's funded ratio from less than 61 percent to 83 percent, though this ratio would decrease for the following 10 years before beginning to rise again.

Payroll Tax

To help pay for Illinois Covered, the Governor has proposed that all employers be assessed a 3 percent payroll tax, with a \$7,500 cap for any single employee. Employers whose spending on health care coverage exceeds 4 percent of wages would be exempt and those whose spending is between 2.5 percent and 4 percent of wages would receive a partial tax credit. The payroll tax is estimated to generate an estimated \$1.1 billion annually once fully implemented.

Conclusion

The Governor's proposed budget for FY 2008 contains important investments in health care and education, and Voices for Illinois Children believes that families would benefit greatly from these investments. At the same time, we are concerned about many smaller human services programs whose funding has remained relatively stagnant in recent years. Voices has long supported a broad-based approach to reform our state revenue system to adequately support the full range of state priorities for children, families and communities.

The current Illinois revenue system does not generate adequate revenues to maintain the existing level of services in future years.¹⁰ Growth in needs (even if adjusted only for inflation and population growth) far outpaces growth in tax revenues. The Illinois tax system also is *regressive* – it takes a greater share of income from low- and middle-income taxpayers than from the wealthy.¹¹ Illinois' flat income tax rate is constitutionally mandated and, at 3 percent, the state personal income tax represents the lowest top rate among the 41 states that use a broad-based income tax. Furthermore, the state sales tax is levied on very few categories of services, failing to capture revenue from the fastest-growing sector of the economy.

The current Illinois revenue system does not generate adequate revenues to maintain the existing level of services in future years. Growth in needs far outpaces growth in tax revenues.

There is no perfect revenue system, but we can work toward one that's better than the inadequate, unfair and outdated one that we have today. The Governor's gross receipts tax plan would substantially increase revenues available for the many state supports upon which kids and families depend. So, too, would the HB750 plan of raising the income tax, expanding the sales tax base, relieving some property tax pressures and providing a family tax credit for the bottom 60 percent of income earners.

In choosing revenue options, policymakers should consider the following tax policy principles:

- **Equity:** Does the plan treat people fairly both at the same and different income levels?
- **Adequacy:** Does it raise enough revenue in the short- and long-term to support important public services?
- **Simplicity:** Is it easy to understand?
- **Neutrality:** Does it distort the investment and spending decisions of businesses and workers?
- **Exportability:** Do individuals and companies that are based in other states – and who benefit from Illinois public services – pay their fair share?

We believe that HB750 and the Governor's tax plan offer different approaches to meeting these principles. Policymakers need to examine and apply the best components of all revenue-generating proposals to craft a strategy that meets critical needs, while distributing responsibility among taxpayers as broadly and fairly as possible. The only option we should rule out is inaction, which would leave us with the status quo of inadequately, unfairly funded schools and an overall system of state finances that does not provide enough support for health and human services. We must not miss this opportunity to make significant progress for children and families.

Appendix: Historical Funding Trends

**Table 13. Operating Budget Appropriations
(in billions of dollars)**

| | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|--------------------------|--------|--------|--------|--------|--------|--------------------|-----------------------|-----------------------|
| Total – All Funds | 39.3 | 41.1 | 42.8 | 44.3 | 45.8 | 49.1 | 7.2 | 24.8 |
| General Funds | 22.3 | 23.3 | 23.7 | 24.5 | 25.7 | 28.9 | 12.1 | 29.7 |

**Table 14. Appropriations by Agency
(in millions of dollars)**

| Agency | | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|---------------------------------------|----------------------|--------|--------|--------|--------|--------|--------------------|-----------------------|-----------------------|
| Children and Family Services | All Funds | 1,377 | 1,357 | 1,268 | 1,290 | 1,326 | 1,331 | 0.3 | -3.3 |
| | General Funds | 838 | 819 | 759 | 811 | 776 | 890 | 14.8 | 6.2 |
| Healthcare and Family Services | All Funds | 9,078 | 13,741 | 14,609 | 16,007 | 16,044 | 17,050 | 6.3 | 87.8 |
| | General Funds | 5,897 | 6,594 | 6,915 | 7,491 | 7,764 | 8,420 | 8.5 | 42.8 |
| Human Services | All Funds | 4,960 | 5,020 | 5,144 | 5,248 | 5,434 | 5,650 | 4.0 | 13.9 |
| | General Funds | 3,637 | 3,696 | 3,778 | 3,844 | 3,994 | 4,176 | 4.6 | 14.8 |
| Juvenile Justice | All Funds | 128 | 132 | 127 | 122 | 126 | 138 | 9.3 | 7.8 |
| | General Funds | N/A | N/A | N/A | 113 | 117 | 125 | 7.1 | N/A |
| State Board of Education | All Funds | 7,156 | 7,596 | 8,059 | 8,316 | 8,749 | 10,239 | 17.0 | 43.1 |
| | General Funds | 5,121 | 5,444 | 5,809 | 6,110 | 6,531 | 8,028 | 22.9 | 56.8 |

a. Formerly Public Aid. Budget totals include the state's group health insurance program which was moved from Central Management Services to DHFS in FY 2006.

b. The Department of Juvenile Justice was separated from the Department of Corrections for FY 2007. Appropriations from FY 2003-2006 represent juvenile division totals.



**Table 15. Selected PreK-12 Education and Child Care Appropriations
(in millions of dollars)**

| Program Area (Agency) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|---|---------|---------|---------|---------|---------|-----------------|--------------------|--------------------|
| General State Aid (ISBE) ^a | 3,206.3 | 3,484.2 | 3,712.3 | 3,927.4 | 4,166.3 | 4,974.8 | 19.4 | 55.2 |
| Special Education (ISBE) ^b | 689.8 | 741.5 | 785.6 | 812.1 | 837.8 | 1,140.0 | 36.1 | 65.3 |
| Early Childhood Block Grant (ISBE) | 183.5 | 213.4 | 243.3 | 273.3 | 318.3 | 387.6 | 21.8 | 111.2 |
| Preschool-Special Education (ISBE) ^c | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 0.0 | 0.0 |
| Literacy Programs (ISBE) ^d | 79.2 | 79.2 | 76.1 | 76.1 | 76.1 | 76.1 | 0.0 | -3.9 |
| Charter Schools (ISBE) ^e | 11.5 | 8.2 | 5.9 | 5.9 | 5.9 | 5.9 | 0.0 | -48.5 |
| Child Care (DHS) ^f | 611.2 | 666.7 | 693.2 | 690.8 | 733.8 | 766.9 | 4.5 | 25.5 |

a. General State Aid includes hold harmless funding.

b. 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.

c. This preschool funding comes from the federal Individuals with Disabilities Education Act.

d. Literacy Programs include the Reading Improvement Block Grant, the Reading Improvement Statewide program (eliminated in FY 2003) and the Family Literacy program (eliminated in FY 2004).

e. The Charter School figure includes Charter Schools (state), Charter Schools (federal) and the Charter Schools Revolving Loan Fund.

f. Child Care in DHS includes the following line items: Child Care Services, Great START and Migrant Day Care Services.

**Table 16. Selected Health Care Appropriations
(in millions of dollars)**

| Program Area (Agency) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|--|---------|---------|---------|---------|---------|-----------------|--------------------|--------------------|
| Medical Assistance General Funds (DHFS) ^a | 4,944.7 | 5,546.5 | 4,861.4 | 6,205.2 | 6,547.8 | 7,116.5 | 8.7 | 43.9 |
| Illinois Covered ^b | N/A | N/A | N/A | N/A | N/A | 374.0 | N/A | N/A |

a. FY 2003-2006 data are from the Illinois Comptroller and reflect expenditures rather than appropriations.

b. This includes the Illinois Covered initiative as well as related health care system improvements.

**Table 17. Selected Income Support Appropriations
(in millions of dollars)**

| Program Area (Agency) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|---|--------|--------|--------|--------|--------|-----------------|--------------------|--------------------|
| TANF (DHS) ^a | 154.9 | 112.9 | 126.8 | 149.3 | 137.1 | 113.6 | -17.1 | -26.6 |
| Child Support Enforcement (DHFS) | 226.1 | 214.4 | 200.4 | 205.6 | 212.1 | 223.0 | 5.1 | -1.4 |
| Emergency Food and Shelter (DHS) ^b | 9.7 | 9.7 | 9.4 | 8.9 | 8.9 | 8.9 | 0.0 | -8.3 |
| Emergency Food (DHS) ^b | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 0.0 | -0.4 |

a. This line item is comprised largely of funding for cash assistance.

b. FY 2003 and FY 2004 data are from DHS. FY 2005-2008 data are from the FY 2007 and FY 2008 Budget Book.

**Table 18. Selected Prevention and Community Health Appropriations
(in millions of dollars)**

| Program Area (DHS) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|---|--------|--------|--------|--------|--------|-----------------|--------------------|--------------------|
| Children's Mental Health^a | 58.4 | 61.9 | 64.2 | 66.1 | 71.1 | 78.1 | 9.8 | 33.7 |
| Early Intervention^b | 64.4 | 61.2 | 61.2 | 58.0 | 61.0 | 71.6 | 17.4 | 11.2 |
| Parents Too Soon | 10.9 | 10.9 | 10.9 | 10.9 | 11.2 | 11.2 | 0.0 | 3.0 |
| Healthy Families Illinois | 9.7 | 9.7 | 9.7 | 9.7 | 10.0 | 10.0 | 0.0 | 3.0 |
| Intensive Prenatal Performance Project | 2.5 | 2.5 | 3.1 | 5.0 | 5.0 | 5.2 | 3.0 | 106.0 |

a. This category includes the following line items: Mental Health Children and Adolescent Grant, MH Individual Care Grants, Mental Health C&A Block Grant (federal), and Teen Suicide (federal).
b. Totals reflect state appropriations to the Early Intervention Revolving Fund. Federal Medicaid and Early Intervention dollars are also available.

**Table 19. Selected Child Protection and Child Welfare Appropriations
(in millions of dollars)**

| Program Area (DCFS) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|--|--------|--------|--------|--------|--------|-----------------|--------------------|--------------------|
| Protective Services^a | 78.7 | 77.1 | 79.9 | 77.8 | 82.1 | 88.5 | 7.8 | 12.4 |
| Family Support^b | 42.6 | 42.6 | 37.9 | 37.2 | 38.0 | 35.5 | -6.5 | -16.7 |
| Foster Care^c | 343.1 | 315.6 | 299.7 | 301.5 | 311.4 | 331.2 | 6.4 | -3.5 |
| Institution/Group Homes^d | 237.4 | 223.6 | 208.5 | 207.1 | 208.6 | 225.2 | 8.0 | -5.2 |
| Adoption^e | 268.5 | 288.9 | 283.9 | 283.8 | 289.3 | 278.2 | -3.8 | 3.6 |
| Child Care^f | 25.1 | 25.1 | 21.1 | 21.1 | 23.2 | 25.9 | 11.7 | 3.3 |

a. The Protective Services funding covered here includes Child Protection, Purchase of Children's Services and Children's Advocacy Centers.
b. Family Support includes the Family Preservation Program and Family Centered Services Initiative line items.
c. Foster Care includes Foster Care Homes and Specialized Foster Care.
d. Institution/Group Homes covers the Group Home Care and Prevention line item.
e. Adoption covers Adoption and Guardianship Services.
f. Child Care in DCFS includes Protective/Family Maintenance and Day Care Infant Mortality (merged into Protective/Family Maintenance Day care in FY 2006).



**Table 20. Selected Community School Appropriations
(in millions of dollars)**

| Program Area (Agency) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|---|--------|--------|--------|--------|--------|-----------------|--------------------|--------------------|
| Teen REACH (DHS) ^a | 19.9 | 19.9 | 20.4 | 18.5 | 19.1 | 19.6 | 2.6 | -1.6 |
| Summer Bridges (ISBE) | 24.8 | 24.8 | 22.2 | 22.2 | 22.2 | 22.2 | 0.0 | -10.2 |
| Parent Involvement Campaign ^d (ISBE) | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -100.0 |
| Mentoring, After School and Student Support Programs (ISBE) | N/A | N/A | N/A | 12.2 | 24.1 | 24.1 | 0.0 | N/A |

**Table 21. Selected Juvenile Justice Appropriations
(in millions of dollars)**

| Program Area (Agency) | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 Proposed | FY07-FY08 % Change | FY03-FY08 % Change |
|--|--------|--------|--------|--------|--------|-----------------|--------------------|--------------------|
| Juvenile Facilities (DJJ) | 107.6 | 111.0 | 104.0 | 97.9 | 102.1 | 106.7 | 4.5 | -0.8 |
| Aftercare Services (DJJ) ^a | N/A | N/A | N/A | 7.3 | 8.3 | 10.4 | 24.7 | N/A |
| Juvenile Justice Programs (DHS) ^b | 15.0 | 15.0 | 14.8 | 13.4 | 13.4 | 13.4 | 0.0 | -10.3 |
| Alternative Youth Services | N/A | N/A | N/A | N/A | N/A | 3.0 | N/A | N/A |

a. Aftercare service appropriations for FY 2006 represent the portion of Aftercare services provided in the juvenile division of the Department of Corrections.

b. For FY 2003-2005, this includes funding for the Juvenile Justice Initiative, Planning and Programs. For FY 2006-2008, this includes funding for Juvenile Justice Planning and Action grants.

Endnotes

¹ Illinois Commission on Government Forecasting and Accountability, “Report on the Financial Condition of the Illinois Public Employee Retirement Systems.”

http://www.ilga.gov/commission/cgfa2006/Upload/0806Financial_Condition_%20PublicEmpl_Retire.pdf

² Voices for Illinois Children, “Illinois’ Pension Funding Crisis.” <http://www.voices4kids.org/pensions.pdf>

³ Voices for Illinois Children, “Illinois Cannot Grow Its Way Out of Fiscal Problems.”

<http://www.voices4kids.org/revenues.pdf>

⁴ Institute on Taxation and Economic Policy, “Balancing Act: Tax Reform Options for Illinois.”

<http://www.ctj.org/itep/ilfinal.pdf>

⁵ Illinois Governor’s Office of Management and Budget, Illinois State Budget Fiscal Year 2008, p. 2-13.

<http://www.state.il.us/budget/FY08%20Operating%20Budget.pdf>

⁶ Totals include line items as indicated in Table 5.

⁷ Illinois Department of Human Services.

⁸ Voices for Illinois Children, “The Governor’s FY2006 Budget Proposal: Deficits Continue to Impact Supports for Children and Families.” http://www.voices4kids.org/FY2006_Budget.pdf

⁹ Voices for Illinois Children, “Illinois’ Pension Funding Crisis.” <http://www.voices4kids.org/pensions.pdf>

¹⁰ Voices for Illinois Children, “Illinois Cannot Grow Its Way Out of Fiscal Problems.”

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¹¹ Institute on Taxation and Economic Policy, “Balancing Act: Tax Reform Options for Illinois.”

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