



SPECIAL REPORT

Budget & Tax Policy Initiative



THE GOVERNOR'S FY 2009 BUDGET PROPOSAL

**Grim revenue outlook limits state's
ability to fund key priorities**

April 2008

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Governor Rod Blagojevich has presented his FY 2009 state operating and capital budget proposals. His budget address focused on investing in infrastructure as well as providing financial stimulus to families and businesses in the face of an economic slowdown. The recommended operating budget totals \$50 billion and includes modest overall increases in funding for agencies serving children and families. The Governor also proposed Illinois Works, a \$25 billion multi-year capital program, the state's first major capital initiative in many years.

With revenues falling short of initial projections, the Governor's Office of Management and Budget (GOMB) estimates a \$750 million shortfall in the FY 2008 budget. To close this gap in the current fiscal year, the Governor has proposed transferring \$500 million in excess balances from special state funds into the state's General Funds and closing corporate tax loopholes to generate another \$250 million. Revenue projections for FY 2009 include very limited base revenue growth due to continued economic uncertainty.¹ GOMB's figures suggest that the FY 2009 General Funds shortfall will be approximately \$1.7 billion.² Shortfall estimates for FY 2008 and FY 2009 do not include the state's backlog of Medicaid bills.

Total General Funds Appropriations

Total recommended operating budget appropriations for FY 2009 would increase by 4 percent over FY 2008. Appropriations from the state's General Funds, which provide most of the spending for education, health care, and human services, increase by 5 percent, exceeding growth from other state and federal funds. This report focuses on five state agencies that encompass major state programs serving children and families: the State Board of Education and the departments of Healthcare and Family Services, Human Services, Children and Family Services, and Juvenile Justice. FY 2009 recommended General Funds appropriations for these agencies range from an increase of less than 1 percent for the Department of Children and Family Services to more than 7 percent for the Department of Healthcare and Family Services, compared with FY 2008.

¹ Illinois Commission on Government Forecasting and Accountability. "Summary of FY 2009 Economic and Revenue Forecast and Updated FY 2008 Revenue Estimate," March 2008.
www.ilga.gov/commission/cgfa2006/

² This estimate is based on the Governor's Office of Management and Budget's figures for FY 2009 increases to General Funds base revenues in the FY 2009 budget book. www.state.il.us/budget/

Table 1. Operating Budget Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal (in billions of dollars)

	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
Total – All Funds	34.9	37.0	37.9	39.4	41.7	47.9	49.7	6.7%	3.8%
General Funds	21.9	22.7	22.5	24.1	25.5	27.5	28.9	4.7%	5.1%
Other State Funds	9.5	10.7	11.5	11.4	12.2	14.6	14.9	9.1%	2.3%
Federal Funds	3.5	3.6	3.9	4.0	4.0	5.8	5.9	12.1%	1.1%

Table 2. General Funds Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal by Agency (in millions of dollars)

Agency	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
State Board of Education	5,051.5	5,409.2	5,751.0	6,044.9	6,471.6	7,093.3	7,397.9	7.0%	4.3%
Healthcare and Family Services^a	5,882.5	6,579.8	5,874.4	7,342.6	7,725.4	8,117.4	8,721.5	7.3%	7.4%
Human Services	3,565.3	3,596.7	3,745.7	3,816.6	3,885.0	4,135.1	4,362.4	3.0%	5.5%
Children and Family Services^b	823.7	794.9	753.8	802.8	771.5	896.8	901.9	2.0%	0.6%
Juvenile Justice^c	N/A	N/A	116.6	112.6	110.8	126.3	131.2	N/A	3.8%

- a. Formerly Public Aid. Totals include the state's group health insurance program which was moved from Central Management Services to Healthcare and Family Services in FY 2006. The FY 2003 total includes General Funds appropriations for the program in Central Management Services.
- b. For FY 2008, there was a substantial shift in funding from the Children's Services Fund to the General Revenue Fund.
- c. The Department of Juvenile Justice was separated from the Department of Corrections for FY 2007. Totals for FY 2003 and FY 2004 were not available. Totals for FY 2005 and FY 2006 represent expenditures for the juvenile division of the Department of Corrections.

Illinois State Board of Education

The recommended General Funds appropriation for the Illinois State Board of Education (ISBE) is nearly \$305 million (4 percent) more than in the FY 2008 budget. The Governor does not specify how to allocate most of this new funding. Instead, he includes a \$300 million line item for new educational initiatives, contingent on increased gaming revenues. The Governor suggests that increased ISBE funding be used for General State Aid for local school districts, "Preschool for All," special education and transportation programs, and bilingual education, mentoring and targeted programs.

**Table 3. Illinois State Board of Education, Selected General Funds Expenditures/Appropriations
FY03-FY08 and Governor's FY09 Proposal (in millions of dollars)**

Program	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
New Educational Initiatives	---	---	---	---	---	---	300.0	---	---
Early Childhood Block Grant	183.18	212.5	242.17	272.2	317.6	347.9	347.9	13.7%	0.0%
General State Aid^a	3,206.3	3,482.6	3,709.3	3,917.3	4,146.7	4,475.2	4,475.2	6.9%	0.0%
Special Education^b	688.6	738.6	768.1	803.4	833.8	966.9	966.9	7.1%	0.0%
Bilingual Education	62.6	62.6	64.6	66.6	66.6	74.6	74.6	3.7%	0.0%
Reading Improvement Block Grant	79.2	79.2	76.1	75.9	76.0	76.1	76.1	-0.8%	0.0%
Career and Technical Education	51.6	38.3	36.0	38.1	38.5	38.6	38.6	-4.9%	0.0%
Truant Alternative and Optional Education	18.6	15.7	15.6	17.6	18.1	20.1	20.1	2.1%	0.0%
Regional Safe Schools	16.2	17.1	17.0	18.0	18.5	18.5	18.5	2.7%	0.0%
Summer Bridges	24.1	24.8	21.8	21.7	22.1	22.2	22.2	-1.4%	0.0%
Children's Mental Health Partnership^c	---	---	---	---	2.9	3.0	3.0	---	0.0%
Mentoring, After School, and Student Support Programs^d	---	---	---	12.2	21.4	5.1	34.5	---	576.9%

a. Total includes Hold Harmless funding. This provision ensures that if, for any school district, the General State Aid formula yields less than the district's total General State Aid and Hold Harmless funding for the 1997-1998 school year, a grant will be appropriated to keep funding at 1997-1998 levels.

b. Total includes the following special education line items: extraordinary services, orphanage tuition, personnel reimbursement, private tuition, summer school payments, and the Philip Rock Center.

c. This line includes Children's Mental Health Partnership funding only in the State Board of Education. Funds are also appropriated to the Department of Human Services.

d. Total includes reappropriations.

Prior to the Governor's budget address, ISBE released its own FY 2009 General Funds budget proposal, which is \$322 million (4.5 percent) more than the enacted FY 2008 budget. Highlights of the ISBE budget request included increases of:

- \$75 million for General State Aid, with a \$125 increase in the foundation level,
- \$75 million for special education,
- \$45 million for early childhood education, and
- \$1.5 million for the Children's Mental Health Partnership.

Table 4. Illinois State Board of Education, Selected General Funds Appropriations FY08, Governor's FY09 Proposal, and ISBE FY09 Request (in millions of dollars)				
Program	FY08 App.	Gov. FY09 Rec. App.	ISBE FY09 Request	Change FY08 - ISBE FY09
Early Childhood Block Grant	347.9	347.9	392.9	12.9%
General State Aid ^a	4,475.2	4,475.2	4,550.0	1.7%
Special Education ^b	966.9	966.9	1,041.8	7.7%
Bilingual Education	74.6	74.6	75.7	1.5%
Children's Mental Health Partnership ^c	3.0	3.0	4.5	50.0%
Mentoring, After School, and Student Support Programs ^d	5.1	34.5	3.0	-41.2%

a. Total includes Hold Harmless funding. This provision ensures that if, for any school district, the General State Aid formula yields less than the district's total General State Aid and Hold Harmless funding for the 1997-1998 school year, a grant will be appropriated to keep funding at 1997-1998 levels.

b. Total includes the following special education line items: extraordinary services, orphanage tuition, personnel reimbursement, private tuition, summer school payments, and the Philip Rock Center.

c. This line includes Children's Mental Health Partnership funding only in the State Board of Education. Funds are also appropriated to the Department of Human Services.

d. Total includes reappropriations.

Early Childhood Education

In the spring 2006 legislative session, the General Assembly overwhelmingly approved legislation authorizing “Preschool for All.” The legislation laid out a road map for ensuring access to preschool for all 3- and 4-year-olds whose parents want it – over time and as resources are made available.³ Building on the successes and structure of the longstanding pre-K program for children at risk of academic failure, Preschool for All established a priority order for future funding increases. Programs serving primarily at-risk children would be top priority, with second priority going to programs serving children from families with incomes up to 400 percent of the federal poverty level (\$84,800 for a family of four in 2008).

The original plan called for increases of \$45 million per year for the Early Childhood Block Grant over the course of five years, beginning with FY 2007.⁴ Increases of \$45 million and \$30 million were approved for FY 2007 and FY 2008. This additional funding represents important progress toward Preschool for All, though the FY 2008 appropriation fell short of the original plan. ISBE has requested an additional \$45 million for the block grant in FY 2009, but there is no specific increase included for the program in the Governor's FY 2009 proposal.

K-12 Education

The state's heavy reliance on local property taxes to fund education produces one of the nation's most inequitable school finance systems. The low percentage of funding

³ Public Act 94-1054. www.ilga.gov/legislation/publicacts/

⁴ Eleven percent of block grant funding supports developmental services for at-risk infants and toddlers.

coming from the state perpetuates huge spending and student-achievement gaps between property-poor and property-wealthy school districts.

General State Aid provides funding for local school districts through the “foundation level” and “poverty grants.” The foundation level is set by the state as public schools’ guaranteed minimum per-pupil expenditure from state and local sources. Poverty grants provide extra funding to school districts based on their concentration of students from low-income households.

The FY 2008 foundation level of \$5,734 remains well short of the FY 2006 level recommended by the Education Funding Advisory Board (EFAB) as necessary to provide an adequate education. Furthermore, even if the entire \$300 million for new educational initiatives were used to increase the foundation level, it would still not be enough to attain the EFAB level for FY 2006, let alone the inflation-adjusted figure for FY 2009 (about \$7,000).

Table 5. General State Aid Foundation Level

2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	EFAB ^a
\$4,810	\$4,964	\$5,164	\$5,334	\$5,734	\$6,405

a. Education Funding Advisory Board figure for FY 2006

Funding for special education services was increased significantly for FY 2008, in part to increase the reimbursement rates for special education personnel, amounts that had not been updated in more than 20 years. Funding for bilingual education was also increased for FY 2008. There is no specific increase included for the programs in the Governor’s FY 2009 proposal, though the ISBE request did include additional funding.

The Governor’s budget proposes no funding increases for the Reading Improvement Block Grant, Career and Technical Education, or the Summer Bridges program. The ISBE budget request included an additional \$3 million for reading improvement. The Governor’s recommended FY 2009 appropriations for all three programs are lower than their FY 2003 expenditures.

Funding levels for anti-truancy and alternative education programs and for regional safe schools have grown only modestly since FY 2003. ISBE proposed an additional \$3 million for the truant alternative and optional education program, though the Governor does not recommend additional FY 2009 funding for these programs.

Recommended ISBE appropriations for the Children’s Mental Health Partnership remain at \$3 million in the Governor’s proposal. The ISBE FY 2009 request, however, included a \$1.5 million increase for the program. These funds provide support for school-based mental health education and support programs. Services include implementing curricula and conducting professional development related to the Social/Emotional Learning Standards, increasing student mental health support services, and expanding the Positive Behavior Intervention and Supports Program to additional schools.

The Mentoring, After School, and Student Support Programs line item was created in the FY 2006 ISBE budget. Spending for the program was nearly doubled for FY 2007, but appropriations were slashed for FY 2008. This budget line largely reflects spending for legislators' district initiatives. For FY 2009, the Governor's recommended appropriation for the program is nearly seven times the FY 2008 level, though ISBE did not request additional funds for the program.

Healthcare and Family Services

Medical Assistance

Illinois has greatly expanded access to publicly funded health care coverage over the past several years. The All Kids program (implemented in July 2006) is designed to provide access to comprehensive health insurance for all uninsured Illinois children, including those who are not eligible for Medicaid or the State Children's Health Insurance Program. All Kids health insurance is provided through a sliding-scale premium structure. Eligibility for FamilyCare – a program that provides low-income parents with low- or no-cost health insurance coverage – has also been significantly increased in recent years.

General Funds spending for medical assistance includes state revenue and federal matching funds, with federal funds making up more than half of the total. The Governor's FY 2009 General Funds budget request for DHFS medical assistance programs represents an overall increase of 9 percent. This includes proposed increases of 19 percent for hospital services, 18 percent for physicians, 24 percent for community health centers, and 7 percent for the Division of Specialized Care for Children. These services are crucial to ensuring that children and families have access to primary, preventive, and acute care, especially as hospitals and other health care providers already face low payment rates and slow payment cycles. The state's Medicaid program could carry a \$1.5 billion backlog of unpaid bills into FY 2009.⁵

In contrast to the Governor's FY 2008 proposal to greatly expand access to health care through "Illinois Covered," his FY 2009 strategy for health care primarily focuses on maintaining existing programs with modest increases to expand health care access. New programs in the FY 2009 proposal include:

- *Illinois Covered Assist*, which would provide access to health care for those living in poverty but otherwise ineligible for Medicaid;
- *All Kids Bridge*, which would offer young adults between the ages of 19 and 21 with pre-existing medical conditions access to health insurance at the same rates that were available to them under All Kids;
- *Illinois Covered Rebate*, which would help pay health insurance premiums for families earning between 100 and 300 percent of the federal poverty level (up to \$63,600 for a family of four in 2008).

⁵ Illinois State Comptroller, "Backlog Sets December Record for Unpaid Bills," *Comptroller's Quarterly*, January 2008. www.ioc.state.il.us/library/cq.cfm

These new programs are not part of the state's General Funds budget. Funding for these initiatives would come from a 3 percent payroll tax on businesses with more than 10 employees who spend less than 4 percent of their payroll costs for employee health care. The assessment would begin January 1, 2009, and is estimated to bring in \$417 million for FY 2009 and nearly \$1 billion when in place for an entire fiscal year.

Child Support

After a significant increase for FY 2008, recommended General Funds appropriations for child support enforcement are flat in the FY 2009 proposal. New measures have been implemented in recent years to improve collection efforts, and Illinois has made important strides with child support collections. Still, current child support collections total just over half the amount due to children, and overall state funding remains at about the same level as in FY 2003.

Table 6. Department of Healthcare and Family Services, Selected General Funds Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal (in millions of dollars)

Program	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
Medical Assistance	4,944.7	5,546.5	4,861.4	6,205.2	6,544.7	6,893.8	7,483.2	7.7%	8.5%
Hospital services	1,921.8	2,265.1	1,888.3	2,490.8	2,579.3	2,665.8	3,163.7	8.0%	18.7%
Physicians	473.3	525.3	428.5	719.8	767.0	822.2	972.0	14.9%	18.2%
Community Health Centers	100.6	126.6	129.2	171.3	235.9	245.1	304.8	20.4%	24.3%
Division of Specialized Care for Children	---	51.4	59.0	61.4	60.5	64.9	69.7	---	7.4%
Child Support Enforcement^a	38.0	32.3	31.0	31.0	31.0	39.0	39.0	1.3%	0.0%

a. Total reflects General Funds appropriations to the Child Support Administrative Fund.

Human Services

Overall, the proposed FY 2009 General Funds budget for the Department of Human Services is increased by \$227 million (6 percent). This increase includes:

- \$55 million for the Child Care Assistance program,
- \$7 million for the Early Intervention program, and
- \$1 million for the Children's Mental Health Partnership.

The proposed budget also includes increases for developmental disabilities programs and home services programs, but otherwise is largely flat.

Child Care

General Funds spending for child care – serving low-income, working families – comes from both federal funding and state revenues. The Governor proposes a FY 2009 funding increase of 9 percent for the Child Care Assistance Program. Great START is a program that enhances salaries for qualified early childhood professionals who further their education and remain in the child care field. Recommended appropriations for Great START remain flat in the FY 2009 proposal.

Early Development

The Early Intervention program offers services to prevent or alleviate developmental delays and disabling conditions in very young children so they can enter school ready to learn. After years of flat or decreased funding, appropriations for the Early Intervention program were increased by \$3 million for FY 2007 and \$10.6 million for FY 2008. The Governor's FY 2009 proposal includes a 10 percent increase for Early Intervention.

Funding for the Intensive Prenatal Performance Project, which offers intensive services to women with at-risk pregnancies, remains unchanged in the FY 2009 proposal.

Mental Health

An additional \$1 million is included in the proposed DHS budget for the Children's Mental Health Partnership. These funds are used for a range of intervention and treatment purposes, including early intervention, early childhood, juvenile justice aftercare, and trauma services. Recommended state funding levels for related mental health services – children and adolescent grants and individual care grants – remain flat in the Governor's budget request.

Home Visiting

The Governor's FY 2009 budget request includes no new funding for Healthy Families Illinois or Parents Too Soon – home-visiting programs that provide parenting support services for families with very young children. Though funding for these programs was increased by 3 percent in FY 2007, reflecting much-needed cost-of-doing-business adjustments, neither program has received another similar increase since FY 2002.

After School

Teen REACH (Responsibility, Education, Achievement, Caring, and Hope) after-school programs are focused on youth up to 17 years of age. Youth participate in activities that improve their likelihood for future success, including homework help, education about reducing risky behaviors, and recreation, sports, cultural and art activities. The FY 2009 budget request for Teen REACH is unchanged, and appropriations would remain below FY 2003 spending for the program.

Income Support

The Temporary Assistance for Needy Families (TANF) cash assistance program provides financial assistance for eligible families with one or more dependent children. The maximum monthly cash grant for a family of three is \$396, an amount that has not been increased since 2002. The Governor recommends a 5 percent decrease in General Funds spending for the program for FY 2009, reflecting continued decline in caseloads.

Funding for the TANF program comes from federal TANF Block Grant funds and from the state's maintenance-of-effort spending. Cash assistance comprises only a small portion of TANF spending, which is also used for a number of other programs including child care.

Table 7. Department of Human Services, Selected General Funds Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal (in millions of dollars)

Program	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
Child Care^a	476.1	533.4	562.0	559.2	526.0	597.9	653.1	4.9%	9.2%
Temporary Assistance for Needy Families^b	143.3	112.0	126.5	148.5	132.0	113.6	108.1	-3.3%	-4.8%
Healthy Families Illinois	9.6	9.6	9.6	9.7	10.0	10.0	10.0	0.7%	0.0%
Parents Too Soon	7.2	7.1	7.2	7.2	7.6	7.6	7.6	0.9%	0.0%
Early Intervention^c	64.5	61.2	61.2	58.0	61.0	71.6	79.1	2.5%	10.4%
Intensive Prenatal Performance Project	2.5	2.4	3.1	4.4	4.7	5.2	5.2	16.6%	0.0%
Mental Health Children and Adolescent Grant	34.1	33.8	35.6	36.9	36.9	37.0	37.0	1.7%	0.0%
Mental Health Individual Care Grants	19.0	22.6	23.17	24.4	23.9	28.1	28.1	8.5%	0.0%
Children's Mental Health Partnership^d	---	---	---	---	2.0	3.0	4.0	---	33.3%
Teen REACH/ After School Youth Support Programs	19.8	19.9	20.4	18.4	19.0	19.1	19.1	-0.6%	0.0%

a. This category includes state funding for child care services and Great START.

b. This line item is comprised largely of funding for cash assistance and represents only a small portion of the state's TANF spending.

c. Total reflects General Funds appropriations to the Early Intervention Revolving Fund.

d. This line includes Children's Mental Health Partnership funding only in the Department of Human Services. Funds are also appropriated to the State Board of Education.

Children and Family Services

The FY 2009 General Funds budget request for the Department of Children and Family Services (DCFS) is less than 1 percent higher than FY 2008 appropriations. In recent years, there has been a shift in appropriations with a decrease in funding from the federally funded DCFS Children's Services Fund and an increase from the state's General Funds. Substitute care caseloads declined in every year from FY 2000 through FY 2007. DCFS estimates that the final FY 2008 figure will show a slight increase in caseloads but that the numbers will again decline for FY 2009.

Recommended appropriations are increased by 2 percent for child protection and 1 percent for institutions and group homes. The proposal also includes decreased funding for adoption services (1 percent). Funding for foster care and family support programs remains unchanged in the FY 2009 budget proposal.

DCFS also administers several day care programs. Protective Services Day Care is provided to children in indicated cases of abuse or neglect. Family Maintenance Day Care services are provided to high-risk families to prevent and reduce parental stress. These two programs receive no funding increases in the Governor's budget request.

Table 8. Department of Children and Family Services, Selected General Funds (GF) and Children's Services Fund (CSF) Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal (in millions of dollars)

Program	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
Child Protection (GF)	67.2	67.6	69.8	64.7	70.8	80.3	81.6	3.9%	1.6%
Family Support (CSF)^a	35.8	34.9	35.1	34.5	33.5	35.5	35.5	-0.1%	0.0%
Foster Care Total	328.2	308.5	297.3	291.5	297.2	331.2	331.2	0.4%	0.0%
GF	188.5	163.2	161.7	176.8	143.1	189.7	189.7	1.7%	0.0%
CSF	139.7	145.3	135.6	114.7	154.1	141.6	141.6	1.6%	0.0%
Institution/Group Homes Total	235.3	214.7	206.1	202.8	208.3	225.2	228.0	-0.7%	1.2%
GF	124.3	114.3	101.2	119.3	102.5	126.0	128.8	1.4%	2.2%
CSF	110.9	100.5	104.8	83.5	105.8	99.2	99.2	-1.0%	0.0%
Adoption Total	266.6	278.3	281.1	280.8	277.5	278.2	275.4	0.9%	-1.0%
GF	151.5	167.1	167.1	172.8	176.0	202.4	199.6	6.1%	-1.4%
CSF	115.1	111.2	114.0	108.0	101.6	75.9	75.9	-7.5%	0.0%
Protective/Family Maintenance Day Care (GF)	24.9	25.1	21.1	21.1	22.2	25.9	25.9	1.4%	0.0%

a. Total includes both the Family Preservation Program and Family Centered Services Initiatives.

Juvenile Justice

The total FY 2009 General Funds budget for the Department of Juvenile Justice (DJJ) is increased by \$5 million (4 percent). This includes a 4 percent increase for Illinois Youth Centers, a 10 percent increase for the School District Division, and a 36 percent increase for the Aftercare Services Division.

DJJ manages eight youth centers across the state that house more than 1,400 juveniles. School district services in DJJ are focused on educational curriculum and specialized programming and services for youth committed to juvenile facilities. Aftercare services are targeted at youth development and successful re-entry into society.

DJJ was created from the juvenile justice division of the Department of Corrections for FY 2007. The formation of the separate agency has not, in general, resulted in increased resources for this special population. The numbers of staff at Illinois Youth Centers, educators at the DJJ school district program, social workers and psychologists, and counselors have all dropped significantly since 2001.⁶ Estimates for FY 2008 show that the number of youth center and aftercare staff declined compared with FY 2007, while the number of education staff increased. The FY 2009 projections show increased numbers of staff for all three areas.

Table 9. Department of Juvenile Justice, Selected General Funds Expenditures/Appropriations FY03-FY08 and Governor's FY09 Proposal (in millions of dollars)

Program	FY03 Exp.	FY04 Exp.	FY05 Exp.	FY06 Exp.	FY07 Exp.	FY08 App.	FY09 Rec. App.	FY03-FY08 Avg. Annual Change	FY08-FY09 Change
Illinois Youth Centers	102.8	100.3	103.0	97.8	101.4	108.7	112.5	1.2%	3.5%
School District ^a	N/A	N/A	8.2	9.4	6.2	9.6	10.6	N/A	10.3%
Aftercare Services ^b	N/A	N/A	5.3	5.3	3.0	4.6	6.2	N/A	35.8%

a. Totals for FY 2003 and FY 2004 were not available. Totals for FY 2005 and FY 2006 represent the portion of aftercare services provided in the juvenile division of the Department of Corrections.

b. Totals for FY 2003 and FY 2004 were not available. Totals for FY 2005 and FY 2006 represent the portion of aftercare services provided in the juvenile division of the Department of Corrections.

Capital Plan

The highlight of the Governor's FY 2009 capital budget is the "Illinois Works" proposal. Illinois Works is a \$25 billion multi-year plan that includes funding for projects involving schools, roads, and public transit. Illinois Works is also estimated to support more than 700,000 jobs. Generally, capital programs are financed through debt,

⁶ AFSCME Council 31, "Beyond the Breaking Point – Illinois State Services in Crisis," April 2007. www.afscme31.org/cmaextras/Beyond_Breaking.pdf

though only 35 percent of Illinois Works is to be bond-funded. Funding for Illinois Works would come from several sources, including long-term lease of the Illinois Lottery. A private operator would manage the lottery and receive 80 percent of lottery proceeds, while the other 20 percent would be retained by the state. The Governor's Office of Management and Budget estimates that the state would receive more than \$10 billion from the lease, to be used to ensure both the \$600 million annual allocation for preK-12 education and \$7 billion for pay-as-you-go capital projects.

Pension Funding

The state's retirement systems, which have been underfunded for decades, currently have a 63 percent funded ratio of assets to liabilities.⁷ Under the current pension funding schedule, to achieve a 90 percent funded ratio by 2045, the FY 2009 required payment is estimated to be \$725 million higher than for FY 2008.⁸ In 2003, the state issued \$10 billion in pension obligation bonds, which were used in part to pay FY 2003 and FY 2004 state contributions to the retirement system.⁹ The Governor cites economic conditions that again favor issuing low-interest-rate bonds to immediately improve the financial condition of the state pension systems. This plan will be advantageous in the long run only if the rate of return of pension system investments over the life of the bonds exceeds the interest rate at the time of issuance. The Governor recommends issuing \$16 billion in new pension obligation bonds and transferring all proceeds to the state retirement systems. He also proposes restructuring the payment plan to require an increase of \$280 million for FY 2009 and 3 percent increases each year until 2034, when the system's ratio of assets to liabilities would reach 90 percent.

Economic Stimulus Proposals

The Governor's "Protecting Illinois Families" proposal consists of two one-time economic stimulus measures: an Illinois Child Tax Credit and an Illinois Business Tax Cut. The Illinois Child Tax Credit is modeled on the recently passed, one-time federal economic stimulus package. The state version would provide a refundable tax credit of \$300 for each dependent child under age 17, doubling the \$300 credit provided in the federal stimulus plan. Eligibility would be determined using the same guidelines in the federal economic stimulus package.¹⁰ The Illinois Business Tax Cut would provide eligible businesses a 20 percent reduction on their 2008 state corporate income taxes. Eligibility would be restricted to those employers that paid the state corporate income tax in 2007 and do not reduce the size of their Illinois workforce.

⁷ Illinois Commission on Government Forecasting and Accountability, "Pensions: Report of the Financial Condition of the State Retirement Systems," February 2008. www.ilga.gov/commission/cgfa2006/

⁸ Ibid.

⁹ Public Act 93-0002. www.ilga.gov/legislation/publicacts/

¹⁰ Eligibility for the federal economic stimulus payment requires minimum earnings and benefits of \$3,000 for Tax Year 2007. The value of the credit begins to phase out at income levels of \$75,000 for an individual and \$150,000 for married couples, filing jointly. For more information, visit: www.irs.gov/

GOMB estimates that the Illinois Child Tax Credit and Business Tax Cut would cost \$900 million and \$300 million, respectively. The Governor has suggested securitizing the state's tobacco settlement funds as a way to fund these tax credits. This method would essentially sell the rights to the revenue stream into an upfront payment. In 1998, four major tobacco companies entered into an agreement with most states to settle separate state lawsuits brought against the industry for Medicaid costs associated with smoking-related diseases. Illinois has used most of the revenue in its Tobacco Settlement Recovery Fund for health-related purposes. In FY 2007, the state spent \$484 million in tobacco settlement funds. About 80 percent of the total was used for prescription drug coverage through Medicaid and the state-funded Senior Care program. The Governor has not indicated how this revenue would be replaced.

Conclusion

The proposed FY 2009 budget does include some funding increases for programs critical to children and families in Illinois – education, child care, children's mental health supports, and early intervention. The \$300 million increase for ISBE, however, is contingent on new gaming revenues. Furthermore, numerous other programs have not been able to keep up with increasing costs after years of flat funding, and many proposed increases still fall well short of meeting needs.

The state's longstanding structural deficit problems have resulted in an inability to provide fair and adequate support for education, health, and human services. The state's fiscal crisis has two components – the short-term economic downturn and the long-term structural deficit. Continuing failure to address the long-term problem exacerbates the short-term problem. The state must deal with both.

Already, the state faces an estimated shortfall of \$750 million for the current fiscal year. The Governor has proposed fund sweeps and closing corporate tax loopholes to fill this gap. The FY 2009 shortfall could be more than twice that amount and it remains unclear whether the Governor's revenue-raising proposals are sufficient to eliminate the deficit. Though the budget includes an additional \$665 million in one-time revenues and \$1 billion in recurring revenues, no specific plans are outlined for these new revenues. Policymakers will continue to face tough choices on how to fund state priorities and must consider proposals to raise much-needed revenues. Voices for Illinois Children has long supported reform of the state's revenue system to maintain and grow essential education, health, and human service programs, while distributing responsibility among taxpayers as broadly and fairly as possible.¹¹

¹¹ Voices for Illinois Children, "Generating New Revenue, Improving Tax Fairness: A Policy Strategy for Income Tax Reform in Illinois," June 2007. www.voices4kids.org/library/files/BT07_incometax.pdf

This special report was prepared as part of the Budget & Tax Policy Initiative at Voices for Illinois Children. To promote discussion of the information and analysis presented here, we invite readers to make copies of the report and to disseminate it. For more information, please contact Maneesha Date Jacoby at mdate@voices4kids.org or 312-516-5568.

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.

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative 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 Initiative helps Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul. The Budget & Tax Policy Initiative is funded by the Ford Foundation, Annie E. Casey Foundation, and the Chicago Community Trust. We thank them for their support but note that the findings and conclusions presented here are those of Voices for Illinois Children alone and do not necessarily reflect the views of these foundations. 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.



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