

# BUDGET & TAX POLICY INITIATIVE SPECIAL REPORT

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Voices for Illinois Children

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## **ILLINOIS SPENDING IN PERSPECTIVE: THE CHALLENGE OF MEETING NEEDS IN A LOW-TAX STATE**



This special report was prepared as a part of Voices for Illinois Children's Budget and Tax Policy Initiative. The initiative is supported by grants from the Ford Foundation and the Annie E. Casey Foundation. Andrea Ingram, director of the Budget & Tax Policy Initiative, is the principal author. 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. We would like to thank the Illinois Bureau of the Budget for its cooperation and input in the preparation of this report.

## **About Voices for Illinois Children**

Voices for Illinois Children is a statewide, non-profit, non-partisan group of child advocates who work with families, communities and policy-makers to ensure that all children grow up healthy, nurtured, safe and well educated. Through policy analysis, public education and outreach, Voices generates support from civic, business and community leaders for cost effective and practical proposals to improve the lives of Illinois children. Jerome Stermer is the president of Voices for Illinois Children, and James J. Mitchell, III, is the chair of the board of directors.

## **About the Budget & 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

Citizens will support smart decisions when they have faith and confidence that their government is fair, effective and efficient. The Budget & Tax Policy Initiative identifies and analyzes the state's revenue and spending policies to help Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul.

## **For More Information...**

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# INTRODUCTION

The dismal condition of Illinois state finances deserves a measured, pragmatic response. We must have the courage to look beyond political expediency to the issues that fundamentally shape who we choose to be as citizens of this state. This report is designed to serve as a tool to help communities, policymakers and advocates develop an understanding of the context and limitations of the existing state fiscal structure.

In evaluating state spending habits and revenue needs, we must put the size of the state's wallet in perspective. There is a substantial difference between a family that spends every penny of its \$20,000 annual income and a family that spends every penny of its \$200,000 income. The higher-income family will be able to make choices to restrain spending in leaner times without jeopardizing the health, safety, welfare and education of the children. The lower-income family may be forced to risk each of these in difficult times unless relief is available.

When compared to other states, Illinois is like that low-income family and now faces jeopardizing the well-being of many of our children and families. Illinois ranks 46<sup>th</sup> in generating the general revenues that pay for education, public safety, human services and health care when measured against the personal income of our taxpayers. That means that the general fund that pays for the primary services and programs of this state, but not its roads and other bricks and mortar projects, is poorer than all but four other states. Our ranking climbs to only 38<sup>th</sup> when measured based on population. And although Illinois does have relatively high property taxes, our state still manages to rank 49<sup>th</sup> in the total state and local revenue that it generates, which includes property taxes and everything else, as a percent of the income of our taxpayers.

The difference between the state and a low-income family is that we, as the citizens of this state, have the power to create the relief that is required. We can raise the money to pay for what we need. The children that needed health care last year still need it today. The families that needed child care so they could work last year still need it today. Disabled people, who thrived with in-home care last year, still are better off with it today. These are the people who are at stake. These are the people who are shouldering the burden of the state's budget crisis.

In times of need, we have proven a desire as a country and a state to stand united. Our responsibility in the face of the devastation that will be imposed on our most vulnerable children and families is to act as a community and share the sacrifice.

# HOW BIG IS THE STATE'S WALLET?

## A. Illinois Total Tax Burden

**Illinois ranks 49<sup>th</sup> in generating state and local own source revenue as a percent of total personal income in the state.**

**What is state and local own source revenue?** The term “state and local own source revenue” is defined as all revenue except federal revenue, liquor store revenue, insurance trust revenue, and utility revenue. It is composed of total taxes plus charges and miscellaneous revenue. The definition includes property taxes.

**Why is it measured as a percent of personal income?** Analysis of public finance revenue as a percentage of personal income is the standard form of measurement. It is considered a better measure for comparisons across states than measures based on per capita for a variety of reasons, including its ability to reflect the relative burden of state and local taxes on state taxpayers and the relative effort that states make to fund public programs.

**Why does Illinois rank so low?** A variety of factors explain the Illinois low ranking. Information about this data is available at the website of the Federation of Tax Administrators: [http://www.taxadmin.org/fta/rate/ind\\_inc.html](http://www.taxadmin.org/fta/rate/ind_inc.html).

- Illinois has a flat income tax of 3%. Illinois taxpayers in the highest income bracket are taxed at a rate that is lower than any other state.
- Illinois imposes a sales tax on only 17 of 164 categories of taxable services. Only six states tax fewer services.
- Illinois is one of only three states that completely exempts all public and private pensions from taxation. (“State Taxation of Social Security and Pensions in 2000,” AARP Public Policy Institute).

**Is this ranking credible?** The Federation of Tax Administrators ranked states based on data from the U.S. Bureau of the Census and Bureau of Economic Analysis. According to its analysis, Illinois ranks 49<sup>th</sup> in generating state and local revenue as a percentage of personal income (including Washington D.C.). A Center on Budget & Policy Priorities analysis ranked Illinois 47<sup>th</sup> using the same data but a more complex methodology.

## B. State Rankings: Total Tax Burden

### State & Local Own Source Revenue as a Percentage of Personal Income, 1999

Rank	State	Total Own Source Revenue (in millions)	% of Personal Income
1	Alaska	\$6,232	36.3%
2	Wyoming	2,526	21.1
3	New Mexico	7,063	19.2
4	D.C.	3,745	19.0
5	Delaware	4,088	18.6
6	New York	108,665	18.6
7	Maine	5,435	18.5
8	North Dakota	2,601	17.9
9	Utah	8,353	17.8
10	Minnesota	24,350	17.5
11	Mississippi	9,585	17.4
12	Wisconsin	23,827	17.4
13	Idaho	4,684	17.4
14	West Virginia	6,362	17.3
15	Hawaii	5,493	17.3
16	Louisiana	16,784	17.2
17	Montana	3,205	17.1
18	Oregon	14,304	16.8
19	South Carolina	14,530	16.8
20	Vermont	2,450	16.7
21	Iowa	11,716	16.5
22	Michigan	43,031	16.3
23	Arkansas	8,783	16.3
24	California	149,776	16.2
25	Kentucky	14,198	16.1
26	Washington	26,260	16.1

Rank	State	Total Own Source Revenue (in millions)	% of Personal Income
<b>U.S. Total</b>		<b>1,163,836</b>	<b>15.8</b>
27	Nebraska	\$6,756	15.7%
28	Indiana	23,178	15.6
29	North Carolina	29,858	15.5
30	Oklahoma	11,515	15.5
31	Florida	61,966	15.4
32	Kansas	10,374	15.3
33	Rhode Island	4,225	15.3
34	Georgia	30,418	15.2
35	Alabama	14,671	15.2
36	Ohio	44,790	15.2
37	Arizona	17,005	15.1
38	Colorado	17,813	15
39	New Jersey	41,619	15
40	Pennsylvania	48,799	14.9
41	Connecticut	18,054	14.7
42	Virginia	28,303	14.7
43	Massachusetts	30,000	14.6
44	Nevada	7,579	14.6
45	Texas	72,643	14.3
46	South Dakota	2,476	14.2
47	Missouri	19,569	14.2
48	Maryland	22,033	13.9
<b>49</b>	<b>Illinois</b>	<b>50,254</b>	<b>13.9</b>
50	Tennessee	17,450	13.1
51	New Hampshire	4,438	12.6

Source: Federation of Tax Administrators tabulation of U.S. Bureau of the Census Data



## C. Illinois General Revenue Collections

Illinois ranks 47<sup>th</sup> in collecting general revenue tax receipts when measured against personal income and 38<sup>th</sup> when measured on a per capita basis.

### Personal Income

This measure of tax burden takes into account the wealth of the taxpayers. In 1999, Illinois collected a total of \$99 per \$1,000 of personal income – the fourth lowest collection rate in the country. The national average that year was \$123 per \$1,000.

### Per Capita

This measure of tax burden is based on tax receipts per number of people. In 1999, Illinois collected general revenue of \$2,942 per capita. The national average was \$3,329. Illinois ranked twelfth lowest amongst the states.

Source: Voices for Illinois Children tabulated this data based on the most recent census data. The Governor's Bureau of the Budget tabulation of the same data resulted in identical rankings, which are published at Ch. 12-6 of the *Illinois State Budget, Fiscal Year 2003*. The census data is available at [www.census.gov](http://www.census.gov).

## D. State Rankings: General Revenue Collections

### State General Revenue Collections Measured Against Taxpayer Income

Rank	State	Revenue Collections per \$1000 of Taxpayer Income
1	Alaska	\$346
2	New Mexico	195
3	Vermont	186
4	Wyoming	185
5	Delaware	185
6	West Virginia	180
7	Hawaii	176
8	North Dakota	176
9	Montana	166
10	Maine	165
11	Mississippi	163
12	Arkansas	157
13	Kentucky	154
14	Utah	150
15	Louisiana	150
16	Rhode Island	144
17	South Carolina	143
18	Idaho	143
19	Wisconsin	141
20	Michigan	140
21	Oregon	140
22	Minnesota	137
23	New York	137
24	Alabama	136
25	North Carolina	132
26	Oklahoma	131

Rank	State	Revenue Collections per \$1000 of Taxpayer Income
27	Iowa	\$130
28	California	129
29	South Dakota	125
30	Massachusetts	125
31	Washington	124
<b>U.S. Average</b>		<b>123</b>
32	Connecticut	122
33	Indiana	119
34	Nebraska	118
35	Pennsylvania	118
36	Arizona	116
37	Missouri	114
38	Ohio	113
39	Kansas	112
40	Tennessee	110
41	Virginia	108
42	Georgia	107
43	New Jersey	107
44	Texas	103
45	Maryland	103
46	Colorado	99
<b>47</b>	<b>Illinois</b>	<b>99</b>
48	Florida	98
49	Nevada	96
50	New Hampshire	88

Source: Voices for Illinois Children tabulation of U.S. Census Bureau data

## E. Tax Rates of Illinois Neighbor States

### State Individual Income Taxes (Tax rates for tax year 2002 as of January 1, 2002)

State	Tax Rate*		National Rankings (higher rankings indicate lower tax burden and less general revenue)	
	Lowest Bracket	Highest Bracket	Total Tax Burden**	General Revenue Collection***
<b>Illinois</b>	<b>3.0%</b>	<b>3.0%</b>	<b>49</b>	<b>47</b>
Indiana	3.4	3.4	28	33
Iowa	.36	8.98	21	27
Kentucky	2.0	6.0	25	13
Michigan	4.1	4.1	22	20
Minnesota	5.35	7.85	10	22
Missouri	1.5	6.0	47	37
Wisconsin	4.6	6.75	12	19

\*Source: Federation of Tax Administrators

\*\*As a percent of personal income; Federation of Tax Administrators tabulation of U.S. Census Bureau data

\*\*\*As a percent of personal income; Voices for Illinois Children tabulation of U.S. Census Bureau data

# HOW MUCH DOES THE STATE SPEND?

## A. Illinois Appropriated Funds

### Total Appropriations

The state appropriates funds from eight fund groups.

- General Funds
- Highway Funds
- Special State Funds
- Bond Financed Funds
- Debt Service Funds
- Federal Trust funds
- Revolving Funds
- State Trust Funds

### General Funds

General Funds pay for the regular operating and administrative expenses of most state agencies. The four components of General Funds are:

- General Revenue Fund
- Education Assistance Fund
- Common School fund
- General Revenue-Common School Special Account Fund

### Other Funds

The state calls all appropriated funds that are not General Funds “Other Funds.” All proceeds from bond sales to be used for capitol projects are distributed through these funds. These funds also include dedicated revenues. For example, the Highway Fund receives revenues from the Motor Fuel Tax and Federal Highway Trust Funds.

### Federal Funds

Funds received from the federal government other than Federal Trust Funds.

Source: Illinois State Budget, Fiscal Year 2003, Reader’s Guide

## B. State Rankings: General Funds Expenditures

### General Funds Expenditures As a Percent of Personal Income

Rank	State	General Funds Expenditures (in millions)	Expenditures as a % of Personal Income
1	Alaska	\$2,262	13.18%
2	Delaware	2,246	10.21
3	Hawaii	3,201	10.06
4	New Mexico	3,526	9.60
5	Connecticut	11,201	9.14
6	Massachusetts	18,109	8.83
7	Minnesota	11,689	8.38
8	Wisconsin	11,270	8.22
9	Maine	2,317	7.89
10	Georgia	14,960	7.50
11	Kentucky	6,549	7.45
12	Rhode Island	2,037	7.36
13	North Carolina	14,094	7.34
14	California	66,494	7.19
15	Utah	3,364	7.18
16	New Jersey	19,459	7.01
17	Iowa	4,763	6.70
18	Ohio	19,244	6.54
19	South Carolina	5,636	6.51
20	Kansas	4,368	6.44
21	Washington	10,210	6.27
22	Mississippi	3,450	6.27
23	Idaho	1,681	6.23
24	Oregon	5,286	6.20
<b>U.S. Total</b>		<b>454,809</b>	<b>6.19</b>
25	West Virginia	2,242	6.11%

Rank	State	General Funds Expenditures	Expenditures as a % of Personal Income
26	Oklahoma	\$4,454	6.01
27	Louisiana	5,811	5.96
28	Pennsylvania	19,295	5.88
29	Montana	1,101	5.87
30	Vermont	859	5.86
31	New York	34,281	5.86
32	Arkansas	3,119	5.78
33	Maryland	9,032	5.71
34	Virginia	10,533	5.47
35	Nebraska	2,345	5.46
36	Alabama	5,220	5.42
37	Texas	27,329	5.37
38	Arizona	6,012	5.34
39	North Dakota	773	5.32
40	Missouri	7,350	5.32
41	Tennessee	6,807	5.10
42	Indiana	7,437	5.00
<b>43</b>	<b>Illinois</b>	<b>17,163</b>	<b>4.74</b>
44	Florida	18,452	4.60
45	South Dakota	764	4.39
46	Colorado	5,035	4.25
47	Michigan	9,360	3.56
48	Nevada	1,573	3.03
49	New Hampshire	1,046	2.97
	Wyoming*	--	--

Source: National Association of State Budget Officers (NASBO), *State Expenditure Report, 2000* (Summer 2001).

\*Wyoming did not participate in the NASBO survey.



## C. Illinois Spending Trends

### Overview: Total Illinois State Spending FY 1999- proposed FY 2003 (\$ in Billions)

	FY 1999	FY 2000	FY 2001	FY 2002	\$/% Change (FY '99-'02)	Proposed FY 2003	\$/% Change (FY '99-'03)
<b>Grand Total</b>	\$38.47	\$42.97	\$48.71	\$51.99	\$13.52/35%	\$52.83	\$14.37/37%
<b>Adjusted for Inflation*</b>	38.47	42.04	46.10	47.85	9.39/24%	48.16	9.70/25%

\*Expressed in 1999 dollars. Source: Illinois State Budget, Fiscal Years 2001-2003

#### *Growth From FY 1999 to FY 2002 by Appropriation Fund*

##### Other State Funds

Actual Increase	Adjusted for Inflation*
\$8.55 billion/ 58%	\$6.69 billion/ 45%

##### Federal Funds

Actual Increase	Adjusted for Inflation*
\$1.45 billion/ 38%	\$1.03 billion/ 27%

##### General Funds

Actual Increase	Adjusted for Inflation*
\$3.53 billion/ 18%	\$1.67 billion/ 8%

	Actual Increase
Education	\$1.49 billion
Health Care	\$1.44 billion
Public Safety	\$0.28 billion
Human Services	\$0.35 billion
Pensions (w/o teachers)	\$0.92 billion
<b>General Fund Increases</b>	<b>\$4.48 billion**</b>

\*Expressed in 1999 dollars

\*\*This includes only key areas of expanded expenditures. It does not reflect spending reductions in other areas.

Source: Voices for Illinois Children calculations based on appropriations reflected in Illinois State Budget, Fiscal Years 2001-2003.

## State of Illinois Spending Trends by Funds Fiscal Year 1999 through Proposed Fiscal Year 2003

		FY 1999	FY 2000	FY 2001	FY 2002	% Change FY 1999- FY 2002	Proposed FY 2003	% Change FY 1999- FY 2003
<b>All Funds</b>	<b>General Revenue Funds</b>	\$19,867,967.0	\$20,922,867.2	\$22,718,937.8	\$23,395,048.6	<b>17.75%</b>	\$22,710,802.5	<b>14.31%</b>
	<i>Adjusted for Inflation</i>	<i>19,867,967.0</i>	<i>20,470,800.0</i>	<i>21,504,300.0</i>	<i>21,533,300.0</i>	<b>8.38%</b>	<i>20,703,900.0</i>	<b>4.21%</b>
	<b>Other State Funds</b>	14,738,663.3	17,971,580.4	20,946,214.7	23,285,027.5	<b>57.99%</b>	24,297,649.7	<b>64.86%</b>
	<i>Adjusted for Inflation</i>	<i>14,738,663.3</i>	<i>17,583,300.0</i>	<i>19,826,900.0</i>	<i>21,431,100.0</i>	<b>45.41%</b>	<i>22,150,500.0</i>	<b>50.29%</b>
	<b>Federal Funds</b>	3,858,624.9	4,078,601.6	5,040,368.3	5,313,320.0	<b>37.70%</b>	5,824,545.7	<b>50.95%</b>
	<i>Adjusted for Inflation</i>	<i>3,858,624.9</i>	<i>3,990,500.0</i>	<i>4,771,100.0</i>	<i>4,890,300.0</i>	<b>26.74%</b>	<i>5,309,900.0</i>	<b>37.61%</b>
	<b>Grand Total</b>	<b>38,465,255.3</b>	<b>42,973,049.2</b>	<b>48,705,520.8</b>	<b>51,993,396.1</b>	<b>35.17%</b>	<b>52,832,997.9</b>	<b>37.35%</b>
	<i>Adjusted for Inflation</i>	<i>38,465,255.3</i>	<i>42,044,400.0</i>	<i>46,103,300.0</i>	<i>47,853,900.0</i>	<b>24.41%</b>	<i>48,164,300.0</i>	<b>25.22%</b>

Source: Illinois State Budget Fiscal Year 2001; Illinois State Budget Fiscal Year 2003

Inflation adjusted totals for FY 2000-FY 2003 are rounded to the nearest \$100.

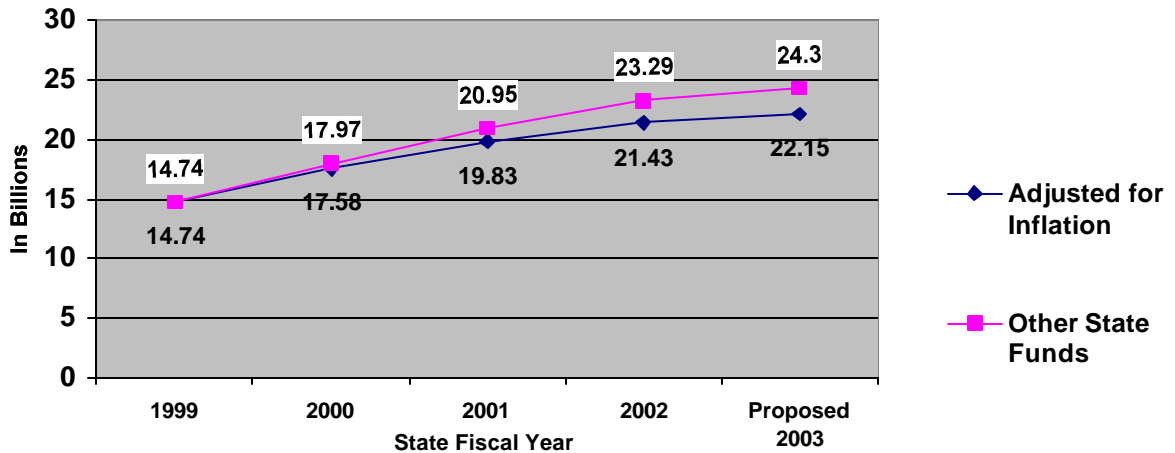
Dollars were adjusted for inflation using the Consumer Price Index Inflation Calculator (available at [www.bls.gov/cpi/home.htm](http://www.bls.gov/cpi/home.htm)).



**“Other State Funds”:** Other State Funds spending in Illinois grew by \$6.69 billion, or 45.41%, in real terms from fiscal year 1999 through fiscal year 2002. Without adjusting for inflation, spending increased by \$7.41 billion, or 50.29%.

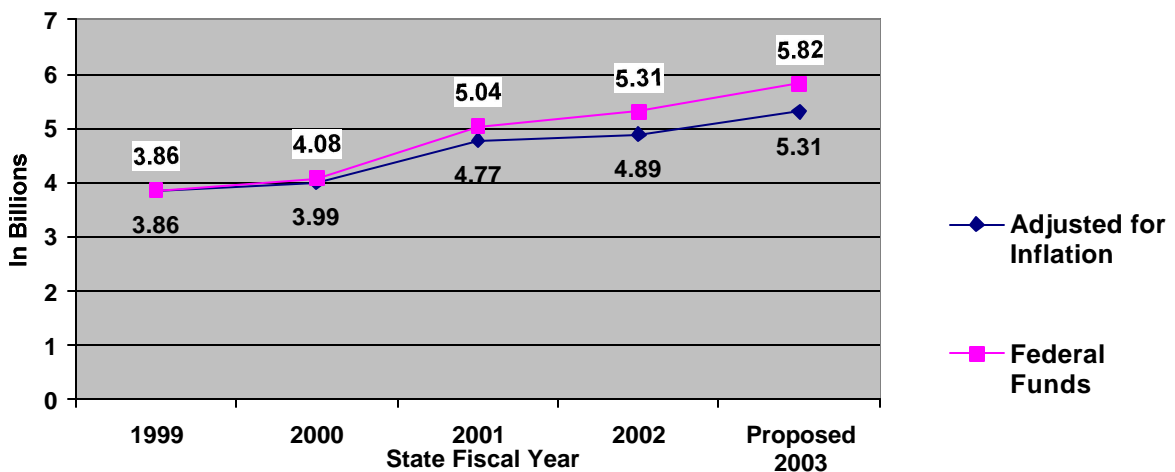
The state calls all appropriation funds that are not General Funds “Other Funds.” These seven funds are: Highway Funds, Special State Funds, Bond Financed Funds, Debt Service Funds, Federal Trust Funds, Revolving Funds, State Trust Funds. A significant portion of this increase is attributable to Illinois FIRST, which is an ongoing \$12.6 billion infrastructure program enacted in 1999.

### Illinois Other State Funds Spending Trends FY 1999 through Proposed FY 2003



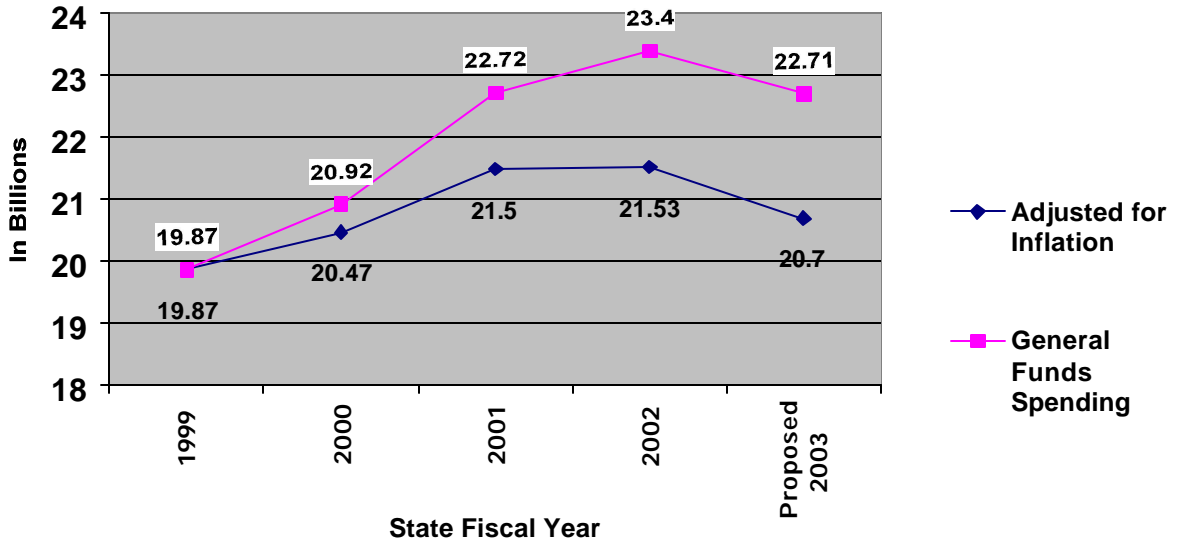
**Federal Funds:** Federal Funds spending in Illinois grew by \$1.03 billion, or 26.74%, in real terms from fiscal year 1999 through fiscal year 2002. Without adjusting for inflation, spending increased by \$1.45 billion, or 37.7%.

### Illinois Federal Funds Spending Trends FY 1999 through Proposed FY 2003



**General Funds:** General Funds spending in Illinois grew by \$1.67 billion, or just 8.38%, in real terms from fiscal year 1999 through fiscal year 2002. Without adjusting for inflation, spending increased by \$3.53 billion, or 17.75%.

**Illinois General Fund Spending Trends FY 1999 through Proposed FY 2003**



Almost all of the growth resulted from economic pressures or sound policy choices supported by the people of Illinois.



## D. Review of General Funds Growth Areas

This section reviews the key areas of spending growth in General Funds appropriations between state fiscal year 1999 and fiscal year 2002 original appropriations. The purpose is to identify the policy choices and economic pressures that resulted in increased expenditures prior to adjustments resulting from revenue shortfalls. Mid-year reductions in fiscal year 2002 appropriations, therefore, are not reflected.

Voices for Illinois Children compiled this data from the Illinois State Budget for fiscal years 2000 through 2003. The Illinois Bureau of the Budget reviewed and commented on the accuracy of the appropriations information prior to publication.

### ***Education – Total Growth \$1.487 billion***

#### **Pre-K through 12--\$1,043 million**

Between FY 1999 and FY 2002, Illinois increased its General Funds appropriations on elementary and secondary education by 20.07% from \$5.18 billion to \$6.22 billion. Over \$261 million of that increase is attributable to increased funding of the Illinois Teacher's Retirement System. During the same period, state spending on general state aid increased from \$2.92 billion to \$3.23 billion, or just 10.6% without adjusting for inflation, while enrollment in public schools climbed 3%.

In the 2000-2001 school year, operating expense per-pupil ranged from \$3,381 to \$16,641 across all Illinois school districts. This disparity exists in part because in Illinois, the state funds 30.8% of education costs, the 49<sup>th</sup> lowest state share of funding across all fifty states. Sources: Illinois State Board of Education; National Education Association, *Rankings and Estimates (2002)*.

#### **Higher Education--\$444 million**

General revenue spending on higher education increased from \$2.22 billion to \$2.67 billion between FY 1999 and FY 2002.

Illinois ranks 32<sup>nd</sup> among the states in appropriations for operating expenses of higher education (FY 2002) of state tax funds per \$1,000 of taxpayer income. Source: Grapevine Center for Higher Education and Education Finance at the Illinois State University ([www.coe.ilstu.edu/grapevine](http://www.coe.ilstu.edu/grapevine))

## **Health Care – Total Growth \$1.444 billion**

### **KidCare--\$69 million**

In fiscal years 1998 and 1999, Illinois implemented the federal government's State Children's Health Initiative Program (SCHIP) through a new state insurance program named KidCare. This program provides medical insurance to children who previously did not have access to care. Enrollment in KidCare grew from 28,241 in January 1999 to 176,602 in March 2002. The state's successful outreach campaign resulted in expenditures increasing from \$116.8 million in FY1999 to \$185.4 million in FY 2002.

### **Aid for Aged Blind and Disabled--\$146.4 million**

In FY 2000, Illinois adopted a phase-in plan to increase the eligibility for full medical coverage of medically needy aged, blind, or disabled citizens from 41% of the federal poverty level to 100%. Prior to the commencement of the phase-in, a person who was disabled as defined by the Social Security Administration and had income of \$8,240 (the federal poverty level for an individual in 1999) would have to spend \$4,861 (59% of the poverty line) on medical expenses before becoming eligible for full medical coverage. The phase in raised the eligibility bar from 41% to 70% in FY 2001 to 85% in FY 2002. The expansion to 100% is scheduled to become effective on July 1, 2002, but the proposed 2003 budget would delay it until April of 2003.

### **Prescription Drugs (Medicaid)--\$429 million**

Prescription drug costs increased by over 63% from \$679 million to an expected \$1,108 million between FY 1999 and FY 2002.

### **Circuit Breaker--\$111 million**

The Circuit Breaker/ Pharmaceutical Assistance Program helps qualified senior citizens pay for approved prescription. An expansion of the program using Tobacco Settlement proceeds increased the number of participants from 50,182 in 1999 to 171,570 by the end of 2001 (Dept. of Revenue Circuit Breaker 2001 Annual Report) with the amount paid for prescriptions climbing from \$34.81 million to \$145.36 million during that same period. This program is administered by the Dept. of Revenue. These increased drug expenses do not duplicate the Dept. of Public Aid increases.

### **Hospitals (Medicaid)--\$423 million**

State expenditures for hospitals serving Medicaid patients increased from \$1,507 million in FY 1999 to an estimated \$1,930 million in FY 2002.

Illinois hospital payment rates for services to Medicaid clients cover 75% of costs—the 46<sup>th</sup> lowest rate in the U.S.

Source: Illinois Hospital Association.

## **Long Term Care (Medicaid)--\$235 million**

Illinois increased its spending on long term care from \$1,340 million in FY 1999 to \$1,575 million in FY 2002.

## **Public Health--\$31 million**

The Department of Public Health's general fund appropriation climbed 31% from \$100.25 million in FY 1999 to \$131.34 million in FY 2002.

## ***Public Safety – Total Growth \$281 million***

### **Prisons--\$249 million**

General Funds spending on corrections climbed 23% from \$1.05 billion to \$1.3 billion between FY 1999 and FY 2002. During the same period, the adult prison population remained fairly stable with 44,355 inmates in 1999 and 44,953 in 2002. Incarcerated children in juvenile facilities declined from 2,199 in 1999 to 1,810 in 2002 and in boot camps from 2,332 to 1,549 respectively.

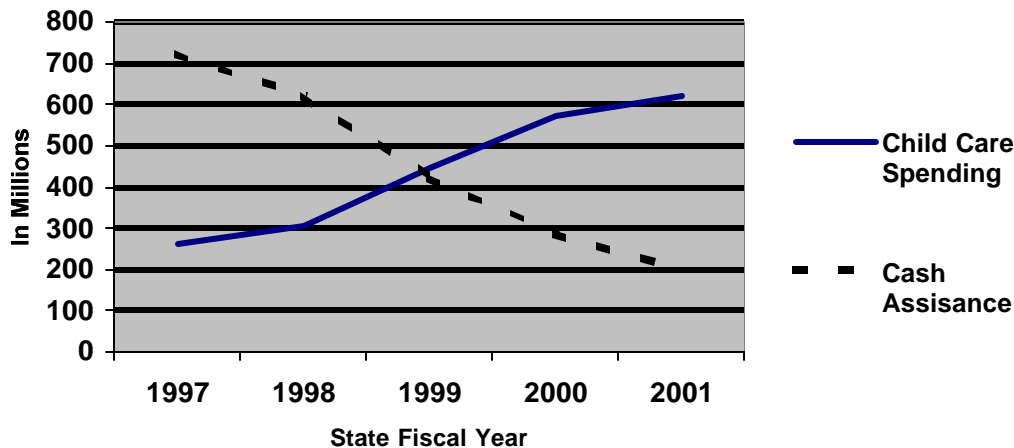
### **State Police--\$32 million**

General Funds spending on state police increased from \$207 million in FY 1999 to \$239 million in FY 2002.

## ***Human Services – Total Growth \$351 million***

As families moved from welfare to work, the state shifted spending from cash assistance into family support services and programs. A strong correlation exists between savings from the reduced caseload and the state's increased investment in child care.

### Illinois TANF Cash Assistance and Child Care Spending (All Sources)



Source: Illinois Department of Human Services

Total DHS General Funds spending increased from \$3.45 billion to \$3.8 billion between 1999 and 2002. This reflects a rate of growth of 10.20%, which amounts to only 1.42% after adjusting for inflation. Some of this increase can be found in an increased commitment to prevention programs and family services such as Teen REACH (up \$6.7million), Healthy Families (up \$7.5 million), Parents too Soon (up \$2.2 million), and in mental health/juvenile justice programs (up \$7.1 million).

### ***Pensions (exclusive of Teachers) – Growth \$92.6 million***

State pension law requires Illinois to make contributions to the state retirement systems so that the total assets of the systems will equal 90% of their total actuarial liabilities by fiscal year 2045. Following an initial 15-year phase-in period that began in fiscal year 1996 and ends in FY 2010, contributions will be a level percent of payroll in fiscal years 2011 through 2045. During the first four years of this law, the ratio of assets to liabilities in state pensions has grown from 52.4% in FY 1995 to 63.1% in FY 2001.

Contributions to the five state pension plans grew from \$1,128.6 million in FY 1999 to an estimated \$1,482.2 in FY 2002, which equals a total increase of \$353.6 million. Of that sum, \$261 million reflects increased payments to the state teachers retirement system. That increase is included in the Education section above and is not duplicated here.



## E. State Pensions Funding Trends Impact on FY 1998 through FY 2002 State Budgets

In 1995, the state of Illinois adopted a plan to resolve the growing gap between the assets in the state pension funds and the liability of the funds to beneficiaries. Public Act 88-593 requires the state to make contributions to the State retirement systems so that the total assets of the systems will equal 90% of their total actuarial liabilities by fiscal year 2045. Following an initial 15-year phase-in period that began in fiscal year 1996 and ends in FY 2010, contributions will be a level percent of payroll in fiscal years 2011 through 2045. During the first four years of this law, the ratio of assets to liabilities in state pensions has grown from 52.4% in FY 1995 to 63.1% in FY 2001.

Over the last seven years, the State of Illinois has contributed over \$6.4 billion to the five state retirement systems; \$5.2 billion of that sum (81.2%) was contributed between FY 1999 and FY 2002. The five systems are set forth below.

- Teachers' Retirement System (TRS)
- State Employees' Retirement System (SERS)
- State Universities Retirement Systems (SURS)
- Judges' Retirement Systems (JRS)
- General Assembly Retirement System (GARS)

### Summary of Contributions

#### To State Retirement Systems

FY 1999-FY 2002

(\$ in millions)

System	FY 1999	FY 2000	FY 2001	FY 2002 Estimated	Dollar Increase (FY '99-'02)
TRS	\$573.0	\$634.0	\$719.4	\$834.0	\$261.0
SERS	315.5	340.9	366.0	375.6	60.1
SURS	217.7	224.6	232.6	240.4	22.5
JRS	18.7	21.4	24.2	27.5	8.8
GARS	3.7	4.0	4.3	4.7	0.98
Total	1,128.6	1,224.9	1,346.5	1,482.2	353.6

Source: Illinois Pension Laws Commission, 2002 Report of the Financial Condition of Illinois State Retirement Systems, March 2002; Illinois Bureau of the Budget; Illinois State Budget FY 2003.

## HOW ARE OTHER STATES REACTING TO LOW REVENUES?

### A. Many states have already acted – April 2002.

#### Alabama

- Increased corporate taxes
- Increased the tax on cellular phones

#### California

- State statute automatically reversed a recently passed 0.25 percent sales tax cut

#### Connecticut

- Increased the cigarette tax by 61 cents per pack
- Delayed the phase-out of the inheritance tax

#### Florida

- Delayed a decrease in the intangible property tax by 18 months

#### Maryland

- Increased the cigarette tax by 34 cents per pack

#### Nebraska

- Delayed a minor business tax credit
- Temporarily increased the state sales tax by 0.5 percent, from October 2002 to December 2003
- Temporarily increased the top income bracket's tax rate (from 6.68% to 6.84%) for calendar year 2003
- Increased the cigarette tax by 30-cents per pack for two years
- Expanded the sales tax to include some services
- Decoupled from the federal bonus depreciation rules

#### New York

- Raised the cigarette tax by 39 cents

#### North Carolina

- Implemented a 0.5 percent sales tax increase
- Created a new 8.25 percent upper-income tax bracket
- Closed corporate tax loopholes

#### Ohio

- Closed corporate tax loopholes

#### Oklahoma

- Statute automatically reversed the personal income tax decrease (from 6.75 percent to 6.65 percent) and increased it to 7.0 percent

#### Virginia

- Statute automatically delayed the final phase of the car tax elimination

#### Washington DC

- Statute automatically delayed the personal income tax cut

### **B. Other states are poised to act – April 2002.**

#### Alaska

- New personal income tax

#### Indiana

- Increase the cigarette tax by 39 cents
- Riverboat gambling taxes
- Repeal a two-year-old corporate income tax cut

#### Kansas

- Increase the sales tax by 0.25 percent
- Increase the cigarette tax by 24 cents
- Increase motor fuel taxes

#### Michigan

- Raise diesel fuel taxes to fund bridge and road repair

#### Missouri

- Increase gambling revenues
- Make sales tax changes

#### New Jersey

- Increase the cigarette tax
- Increase corporate income taxes

## Oregon

- Increase the cigarette tax by 30 cents
- Increase beer and wine taxes
- Increase income taxes by repealing a recently enacted increase in the maximum deductibility of federal tax payments for the purposes of calculating state taxable income

## Rhode Island

- Halt the phased-in car tax reduction

## Tennessee

- Institute a flat 3.25 percent income tax, coupled with a sales tax decrease and elimination of sales taxes on grocery food for a net tax increase (Tennessee does not currently have an income tax)

## Washington

- Increase hard liquor prices
- Implement a new, multi-state lottery game
- Implement a tax on card rooms
- Close corporate loopholes

Source: Status of actions in other states compiled by Center on Budget & Policy Priorities