Fiscal Focus

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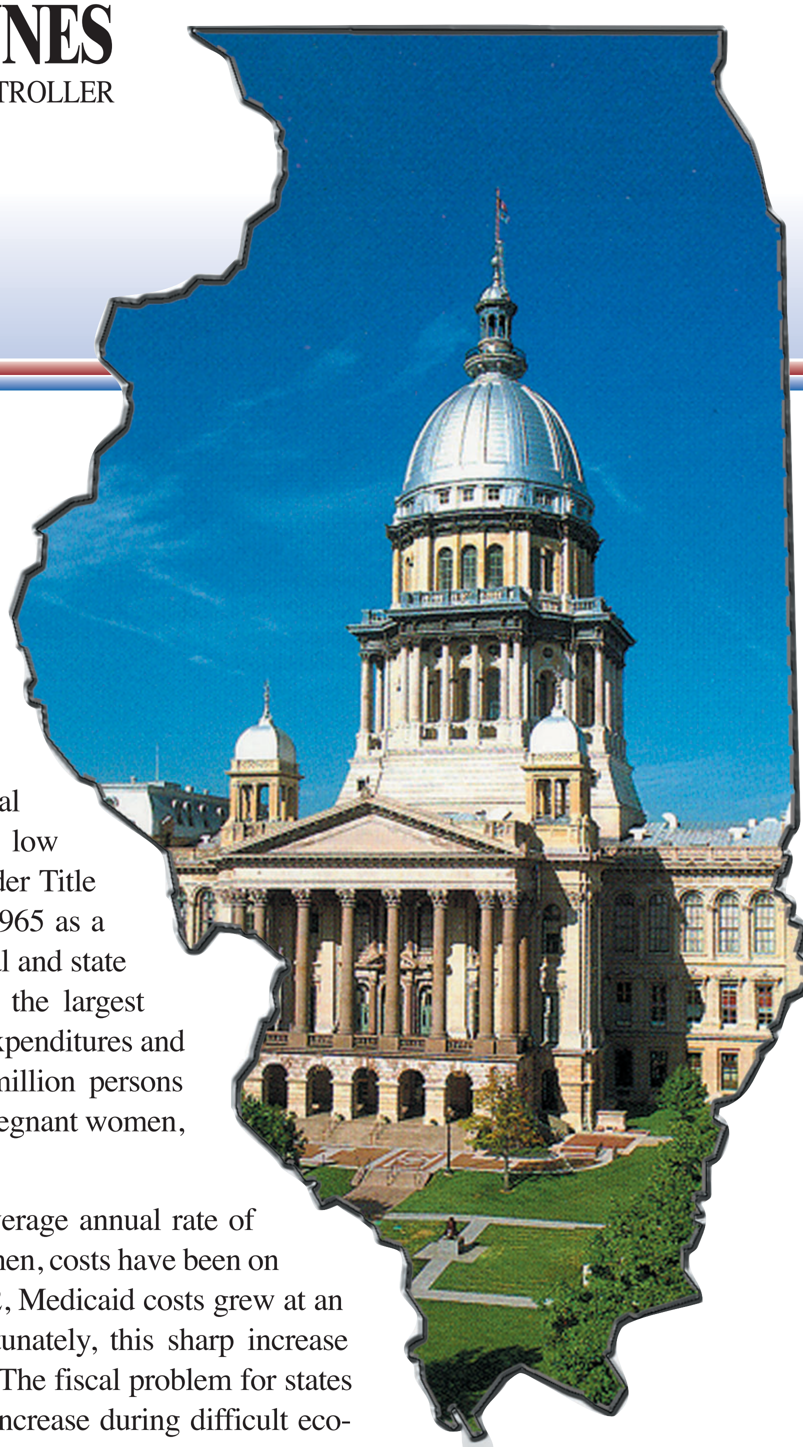
DANIEL W. HYNES

STATE OF ILLINOIS COMPTROLLER

Comptroller Hynes' office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.



Medicaid Spending Increases Challenge State Budgets

The Medical Assistance program, usually called Medicaid, is a health care program that provides medical assistance for certain individuals and families with low incomes and resources. Medicaid was authorized under Title XIX of the Social Security Act and became law in 1965 as a jointly-funded cooperative venture between the federal and state governments. By 2002, Medicaid had grown to be the largest health program in the nation totaling $257 billion in expenditures and providing health care services to an estimated 47 million persons including seniors, people with disabilities, children, pregnant women, and low-income families.

In the 1995-97 period, Medicaid costs grew at an average annual rate of 3.2%, the lowest rate in the program's history. Since then, costs have been on an upswing. From fiscal year 2001 to fiscal year 2002, Medicaid costs grew at an annual rate of 12.8% (see chart on page 5). Unfortunately, this sharp increase occurred when the economy was facing a downturn. The fiscal problem for states is that Medicaid enrollment and spending generally increase during difficult economic times, which are the same times state revenues generally decrease.

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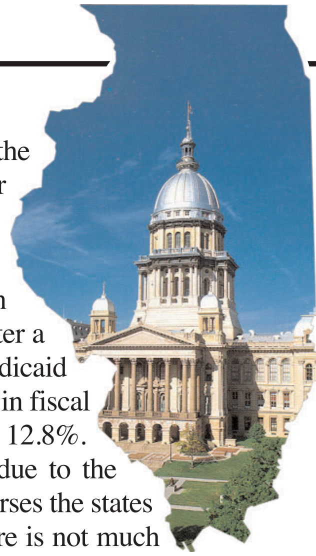
FROM THE COMPTROLLER



Dear Readers:

This issue of *Fiscal Focus* reviews some of the issues surrounding the Medicaid program. State governments are struggling to balance their budgets not only because of revenue shortfalls, but also due to increasing expenditures for services including health care.

Medicaid is now the largest health insurance program in the nation with total expenditures reaching $257 billion in 2002. However, after a few years of moderate growth, the annual percentage change in Medicaid expenditures reached double digits in 2001 and 2002. For example, in fiscal year 2002, Medicaid expenditures increased at an average rate of 12.8%. This growth exacerbated the fiscal problems states were facing due to the downturn in the economy. Although the federal government reimburses the states from 50% to 77% of the costs of providing Medicaid services, there is not much optimism that they will provide additional funds during these difficult economic times.

Before closing, I would like to take this opportunity to announce the availability of a number of publications. The publications, all with data for fiscal year 2002, include the following: *Fee Imposition Report, Tax Expenditure Report, Executive Summary,* and *Comprehensive Annual Financial Report*. These reports are available in hard copy, as well as digitally through the Comptroller's web site (see address below). We hope these reports contribute to your knowledge of state finances.

As always, your comments about this or our other publications are welcome. Your input can be sent directly, or via the web site at **www.ioc.state.il.us.**

Sincerely,

Daniel W. Hynes
Comptroller

Fiscal Focus Features

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest.

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Fiscal $marts

Budgetary Deficit vs. Operating Deficit

Nearly five years ago, in May 1998, the Comptroller's Office published a series of articles in Fiscal Focus discussing the amount of surplus money available in the General Funds. Now, on the heels of a recession exacerbated by the events of September 11, the discussion has done a complete turnaround with the state in the depths of its worst financial crisis in history. Faced with a huge backlog of unpaid bills and declining to stagnant revenues, lawmakers are trying to get a handle on the deficit facing Illinois' General Funds.

The first step in dealing with the massive deficit is to identify how much that deficit is. While there are numerous ways to calculate a deficit, this discussion focuses on viewing a deficit from a budgetary and an operational perspective. One important distinction to make in defining the deficit is to understand that a budgetary deficit and an operational deficit are two different things. A budgetary perspective views financial results over a fiscal year. An operational perspective injects cash flow considerations into deficit determination calculations.

Budgetary Deficit

A popular belief over the years has been that whatever the end-of-year available balance is constitutes a surplus. Another notion was to compare the end-of-year available balance from one fiscal year to the next. An increase from year to year meant the difference was a surplus while a decline translated to a deficit. Yet a third method, and the most widely respected,

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HOW Illinois Stacks Up

Medicaid Costs Continue Climb

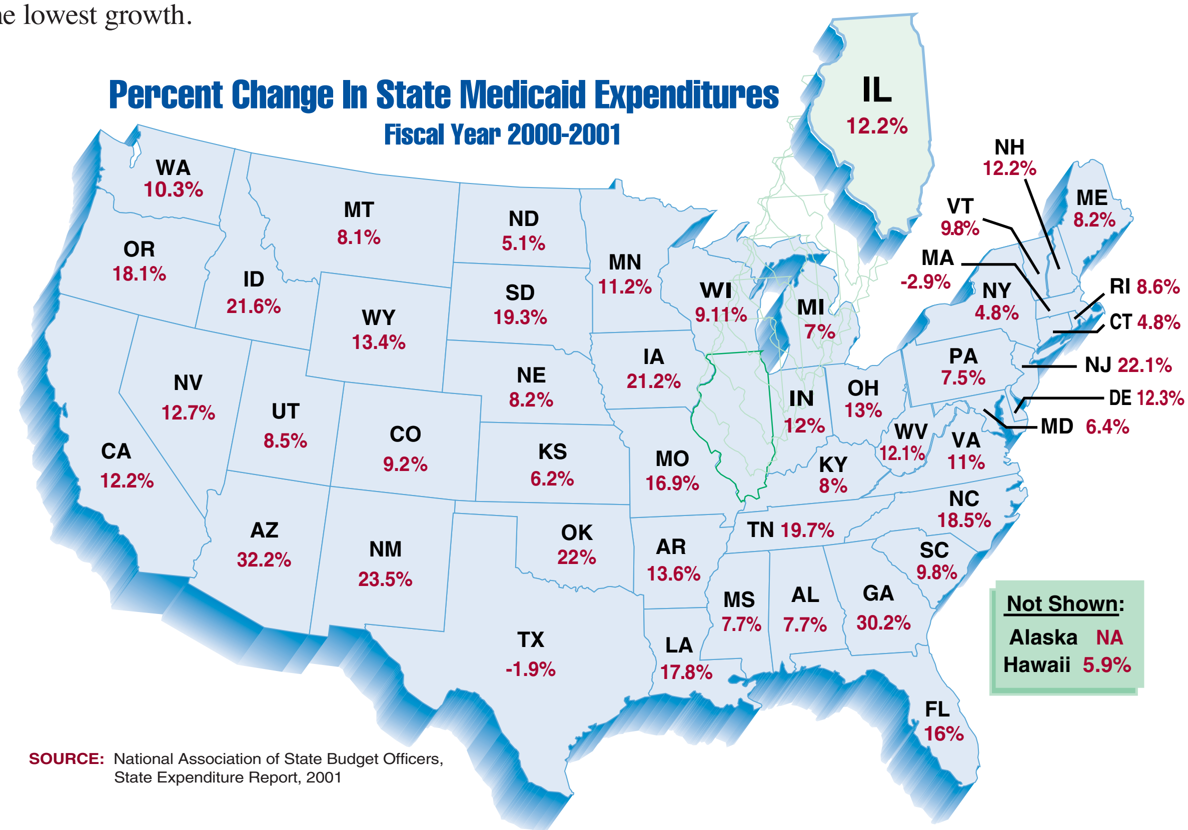
For many states, Medicaid has been, and continues to be, one of the largest and fastest growing components of state spending. Nationally, Medicaid spending grew 10.9% from fiscal year 2000 to fiscal year 2001, while total state expenditures increased on average 8.3%. According to the National Association of State Budget Officers in the State Expenditure Report, 2001, state expenditures for Medicaid were 19.6% of total expenditures. In Illinois, Medicaid accounted for 21.5% of total spending.

For Illinois, Medicaid expenditures increased 12.2% from fiscal year 2000 to 2001, while total expenditures increased only 7.3%. This is slightly above the national average. Arizona (32.2%), Georgia (30.2%), New Mexico (23.5%), New Jersey (22.1%), and Oklahoma (22.0%) had the highest percentage change in Medicaid spending. Massachusetts (-2.9%), Texas (-1.9%), New York (4.8%), Connecticut (4.8%), and North Dakota (5.1%) had the lowest growth.

Some Midwestern states had similar Medicaid growth. Missouri (16.9%), Indiana (12.0%), and Minnesota (11.2%) had an increase slightly above the national average. Iowa had the largest growth in the Midwest region with an increase of 21.2%. Wisconsin and Michigan had the lowest growth with 9.1% and 7.0% respectively.

According to the Illinois Department of Public Aid's annual report, the fastest growing Medicaid cost is prescription drugs. From 2000 to 2001, spending on prescription drugs increased 23.5%. Other large increases were for practitioners 21.0% and hospitals 18.4%. Spending on long-term care decreased -0.4%, HMOs declined -1.8%, and other medical expenses grew 10.2%.

Enrollment in Illinois also grew in 2001 by 9.1%, according to a Kaiser Family Foundation survey. Kids, pregnant women, and families had enrollment grow by 11.1% from 2000 to 2001. Blind and disabled grew 3.8%, and elderly grew 2.4%. However, a large enrollment growth may not result in a huge expenditure growth since kids, pregnant women, and families only account for 31% of expenditures. They make up 75% of the people served under Medicaid. Blind and disabled (16% of people served) accounted for 44% of expenditures, while the elderly (9%) used 25%. ■



Fiscal Smarts continued from page 2

utilized what is known as the "budgetary balance method." Under this method, lapse period spending is subtracted from the end-of-year cash balance. In effect, the budgetary balance compares spending from current year appropriations to revenue generated during the year. If the end-of-year balance is not high enough to cover lapse period spending, the budget is out of balance and a deficit has occurred.

General Funds Budgetary Balances- Fiscal Years 1999-2003
(Millions of Dollars)

Fiscal Year	1999	2000	2001	2002	2003*
Ending Balance	1,351	1,517	1,126	256	275
Lapse Period Spending	848	740	826	1,476	1,875
Budgetary Surplus (Deficit)	**503**	**777**	**300**	**(1,220)**	**(1,600)**

*Fiscal Year 2003 figures are based on Governor's FY 2004 Budget Book.

Under the budgetary balance method of determining the deficit, the end-of-fiscal year balance for 2002 was $256 million with lapse period spending of $1.476 billion for a budgetary deficit of $1.220 billion (see table). This was a decrease of $1.520 billion from the budgetary surplus of $300 million for fiscal year 2001. The $1.520 billion also represents how much total spending from fiscal year 2002 appropriations exceeded revenue for that year. For fiscal year 2003, Bureau of the Budget projections show a $1.6 billion budgetary deficit with an end-of-year balance of $275 million and $1.875 billion in lapse period spending.

The major drawback of the budgetary method in determining a deficit is that it only looks at the fiscal year in total. Factors such as seasonable imbalances in revenues and spending within a fiscal year are not taken into account.

General Funds Base Revenues and Expenditures - Fiscal Years 1999-2002
(Millions of Dollars)

Revenues

Fiscal Year	1999	% of Total	2000	% of Total	2001	% of Total	2002	% of Total
First Half	10,312	47.6	10,731	46.2	11,032	45.8	10,947	46.8
Second Half	11,362	52.4	12,519	53.8	13,074	54.2	12,432	53.2
Total Revenues	**21,674**		**23,250**		**24,106**		**23,379**	

Average Percent of Total For First Half of Fiscal Year Equals 46.6%.

Expenditures

Fiscal Year	1999	% of Total	2000	% of Total	2001	% of Total	2002	% of Total
First Half	10,744	49.9	11,597	50.2	12,255	50.0	11,862	48.9
Second Half	10,781	50.1	11,487	49.8	12,242	50.0	12,386	51.1
Total Expenditures	**21,525**		**23,084**		**24,497**		**24,248**	

Average Percent of Total For First Half of Fiscal Year Equals 49.7%.

Operating Deficit

Even though the budgetary balance method may show a surplus for the fiscal year an operating deficit may still occur. This is due to the fact that the flow of revenues into, and expenditures out of, the State Treasury are not evenly matched. While spending tends to be spread fairly evenly throughout the fiscal year, revenue collections are not. This difference is due to the nature of the state tax structure, in particular the income tax, whose April 15th payment date occurs in the fourth quarter of the fiscal year.

For fiscal years 1999 through 2002, revenues in the first half of the fiscal year averaged only 46.6% of total revenues while spending averaged 49.7%. With this disparity in the first half of the fiscal year there is a built in operating deficit averaging approximately 3.1%. Therefore, the end-of-year balance is not only needed to finance lapse period spending, but also to serve as an operating cushion to allow the uninterrupted flow of payments and avoid backlogs of unpaid bills. Given this built in operating deficit, it would be prudent to target a beginning-of-year available cash balance of 3.1% of annual spending plus anticipated prior year lapse period spending to improve the chances of avoiding cash flow problems and also having a balanced budget.

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General Funds Operating Surplus or Deficit to Begin the Fiscal Year
Fiscal Years 2000 - 2004
(Millions of Dollars)

Fiscal Year	2000	2001	2002	2003	2004*
3.1% of Spending	716	759	752	730	823
Prior Year Lapse Period Spending	848	740	826	1,476	1,875
Balance Needed to Start Fiscal Year**	**1,564**	**1,499**	**1,578**	**2,206**	**2,698**
Actual Balance to Start Fiscal Year	1,351	1,517	1,126	256	275
Operating Deficit to Start Fiscal Year	**(213)**	**18**	**(452)**	**(1,950)**	**(2,423)**

*Fiscal Year 2004 figures are based on 2004 Budget Book.
**Balance needed to start next fiscal year in order to avoid cash flow problems.

Cover Story continued from front page

In Illinois the decline in revenues has reached a point where the backlog of unpaid bills, including Medicaid, totaled $1.8 billion at the end of March. The Comptroller proposed that the state borrow $700 million to begin to pay off the older Medicaid bills. Through negotiations with the Governor's Office and the Treasurer, $1.5 billion is proposed to be borrowed, and $750 million will be dedicated to Medicaid. The borrowing plan will maximize federal matching dollars, maintain services for Medicaid recipients, and provide immediate relief to the state's cash-strapped Medicaid providers, many of whom are facing severe financial hardship. The borrowing plan would be based on interest rates in the 1.3% to 1.5% range.

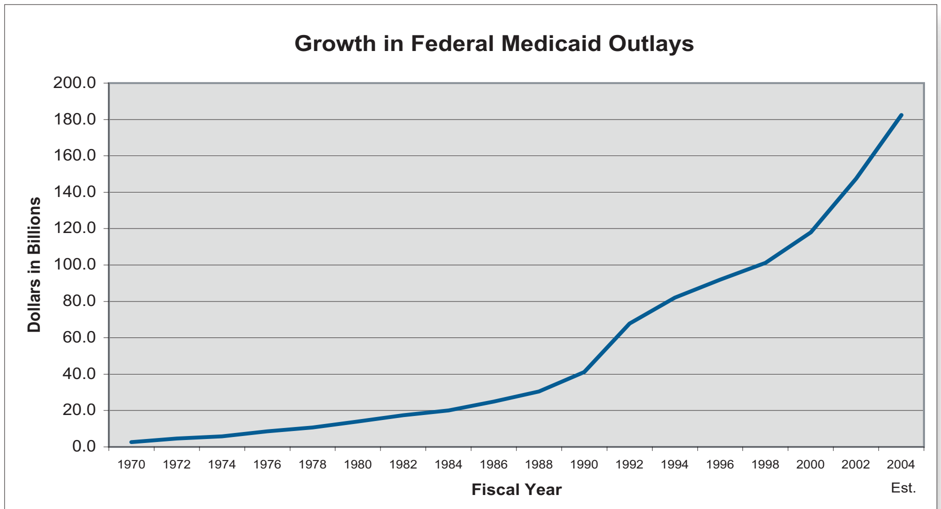
Medicaid: a Federal/State Partnership

According to the Alliance for Health Reform, Medicaid spending nationally will total an estimated $280 billion in fiscal year 2003. Of this amount, about $121 billion will be state funds and $159 billion will be federal funds. In fact, Medicaid is the source of 43% of the total federal grant dollars given to the states.

The Medicaid program is financed by a unique federal and state partnership through which the federal government pays from 50% to 77% of the costs of services provided to Medicaid recipients. The technical term is federal medical assistance percentage (FMAP) and it is the percentage of federal reimbursement a state receives based on a formula that compares a state's per capita income to the national average for three preceding years. The least wealthy states qualify for the 77% matching rate, the most wealthy states qualify for the 50% rate, while others fall in between (see table). Technically, Medicaid is a reimbursement program which means that the states must spend funds for medical assistance first. Then the federal government reimburses the states for their eligible Medicaid expenditures at their respective FMAP. For example, if a state spends $100 for eligible Medicaid services and its FMAP is 50%, the federal government would reimburse the state $50. The net effect is that the state contributes $50 and the federal government contributes $50.

Federal Medical Assistance Percentage (FMAP) - Selected States, FFY 2003

State	Percent
Mississippi	77%
New Mexico	75%
Iowa	64%
Indiana	62%
Missouri	61%
Ohio	59%
Wisconsin	58%
Michigan	55%
California	50%
Illinois	**50%**
Minnesota	50%
New York	50%



Source: U.S. Office of Management and Budget, Outlays for Health Programs, The Budget for Fiscal Year 2004.

Important Medicaid Changes
Selected Dates

1965	The Medicaid Program (Title XIX of the Social Security Act) is enacted to provide health care services to low-income children, their caretaker relatives, the elderly, the blind and individuals with disabilities.
1967	Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) is established for all Medicaid children under age 21.
1972	States are allowed to link Medicaid eligibility for the elderly, blind and disabled to the new Supplemental Security Income (SSI) program.
1981	Home and community-based care waivers are established; states are required to provide additional payments to hospitals treating a disproportionate share of low-income patients (DSH).
1988	Medicaid coverage for pregnant women and infants up to one year of age at 100 percent of the federal poverty level is mandated.
1989	Medicaid coverage for pregnant women and children under age 6 at 133 percent of the federal poverty level is mandated.
1991	Disproportionate Share Hospital (DSH) spending controls are established; provider donations are banned and provider taxes are capped.
1996	Temporary Assistance to Needy Families (TANF) welfare reform is enacted; enrollment and termination of Medicaid is no longer automatic with the receipt or loss of welfare cash assistance.
1997	State Children's Health Insurance Program (SCHIP) is created; limits on payments to DSH hospitals are revised; new managed care options and requirements for states are established.

Mandatory and Optional Medical Services

In every state that participates in Medicaid, federal guidelines require the provision of mandatory services to cover certain very low-income children, pregnant women, and some elderly and disabled people (see table on mandatory services). Most importantly, these Medicaid services must be provided at no cost to children and pregnant women, and with nominal co-payments for adults. The federal government interprets this to mean no more than a $3 co-payment. No premiums are

COVER STORY continued page 10

LOCAL Government Line

Public Courses Look for Rebound

As the weather slowly begins to change and blossoming colors of spring abound, many people anxiously await participating in outside activities. From gardening to exercising, hope springs eternal for many outdoor enthusiasts. Nothing quite captures that feeling more than the perpetual challenge of many amateur golfers playing the courses throughout the state.

Many local villages and park districts in Illinois having been attempting to capitalize on the ever-growing golf industry. It is estimated that there are nearly 27 million golfers age 12 and over in the United States. This marks a 34% percent increase in the number of golfers since 1986 when there was an estimated 20 million golfers nationwide. Illinois ranks seventh in the nation for the number of public access courses with 532. Many of these courses are owned and operated by local governments.

Golf courses have offered a unique opportunity to villages and park districts to use abandoned or open space in their communities. In most instances, the new courses provide beautification to areas that would otherwise be an eyesore, or a poor use of land. Also, these courses help provide a source of revenue while presenting a golfing challenge for residents and non-residents to enjoy. If the courses draw enough golfers throughout the year, area businesses also see a significant bump in sales from visiting players.

However, golf courses have their drawbacks. It can be very costly to maintain a course in a fashion that would make golfers return. Lack of maintenance can have a devastating effect on the bottom line of these courses. Mother Nature can also reek havoc on courses, especially here in Illinois. If the state has a particularly bad summer, with an abundance of rain or other inclement weather, the sales revenues plummet. According to the National Golf Foundation (NGF), the total number of rounds played in 2002 dropped 3% compared to 2001, and total revenues only grew 0.9%. The hardest hit areas were in the lower Midwest (including Illinois, Indiana, Iowa, Ohio, Kansas, Missouri, and Nebraska) where the total rounds played declined 5.5%.

Similar to everything else, the market also has an effect on the number of golfers who take to the tee boxes. Golf course operators who experienced fewer rounds in 2002 reported to the NGF that the main reasons for the decline were the weather, competition and the economy. Because of these factors, many local governments are looking for ways to help balance the recent drop off in patrons and revenue.

Looking at a few courses in the Chicago area, it appears that some local park district courses may have to make some tough decisions. The park district courses in Highland Park, Alsip, and Oak Lawn all lost money in fiscal year 2002. Like many other courses throughout the state, they may have to cut back on services at the course and eliminate special deals they may have offered. Since these courses are a part of enterprise funds, these courses may also raise fees as they see fit to try and recover from last year's deficit.

However, the Bolingbrook Park District's course made money during the same period. Comparing their numbers to the others, the budgeted figures closely resemble the actual figures they generated throughout the year. This can be attributed to several factors from cautious budgetary figures to the fact that maybe Bolingbrook's course is in good condition to attract golfers in a down year.

Even though it may have been a down year for the park district courses, the increasing number of golfers gives promise to a quick recovery. As a part of enterprise funds, golf courses also have several options to assist in any return to positive revenues. Golf courses can continue to provide a viable option to local governments who want to beautify land, gain a revenue source, and give residents a chance to play like the pros in their own back yard. ■

CEMETERY Care Corner

Cemetery Care Web Site Completed

After several months of construction, the Cemetery Care Division is pleased to introduce a new and improved web site that will benefit both consumers and licensees alike. The opening page of the site greets visitors with a message from Comptroller Hynes, outlining his responsibilities with regard to the oversight of cemeteries and funeral homes in Illinois. The site highlights the accomplishments of the Comptroller's Office, but more importantly, points visitors to a variety of legislative and community resources.

One feature of the new site is a compilation of existing laws that govern cemeteries and funeral homes in Illinois. These statutes, which include the Cemetery Care Act, the Funeral and Burial Funds Act, the Crematory Regulation Act, and others, can be viewed in their entirety with a simple click of the mouse. Providing easier access to these laws will not only help licensees meet compliance standards, but also will act as a resource for consumers as they educate themselves on making purchases within the death care industry, or protect themselves from possible fraud.

While the statutes themselves are a valuable resource, they are sometimes seen as overly complicated when considering the purchase of cemetery and funeral home services. To aid consumers in the decision making process, the Comptroller's Office has created several brief, easy to understand pamphlets outlining what Illinois consumers need to know before making a cemetery or burial purchase. These pamphlets, which are available in hard copy by contacting the office, can now be viewed on the web site. They include information on purchasing cemetery and funeral home goods and services before the time of need, as well as an overview of what consumers should know before entering into such purchases. The web site also allows visitors to request a Consumer Education Video for free by e-mailing the Comptroller's Office. This video may be available for viewing on the web site in the future.

In addition to acting as a resource for consumers, the Cemetery Care web site has also made reporting requirements more convenient for all licensees. Cemeteries and funeral homes that file financial reports with the Comptroller's Office are now able to file those reports electronically through the Cemetery Care <e> Filing System. Licensees simply access the Cemetery Care web site, enter a password provided to them by the Comptroller's Office, and enter their financial data. The report can be completed and sent via e-mail in a matter of minutes. For those licensees who still wish to file their reports in hard copy, the paper forms can be downloaded and printed from the web site as well. Also, individuals who wish to apply for a license from the Comptroller's Office, or cancel their existing license, can access the appropriate forms in the Download Center.

The Cemetery Care web site also includes many of Comptroller Hynes' initiatives within the industry. Project CARE (Cemetery Advocate & Restoration Effort) is one of the most successful initiatives. This program, which is about to enter its fourth year, is aimed at restoring abandoned and neglected cemeteries throughout the State of Illinois, as well as raising awareness of this widespread problem and encouraging community activism. Visitors to the web site can read about what has been accomplished by this program over the past three years, as well as learn how to recommend a cemetery for restoration or participate in the program as a volunteer. In addition to Project CARE, visitors can access the "In The News" section of the site to read about recent action taken by Comptroller Hynes within the cemetery and funeral home industry.

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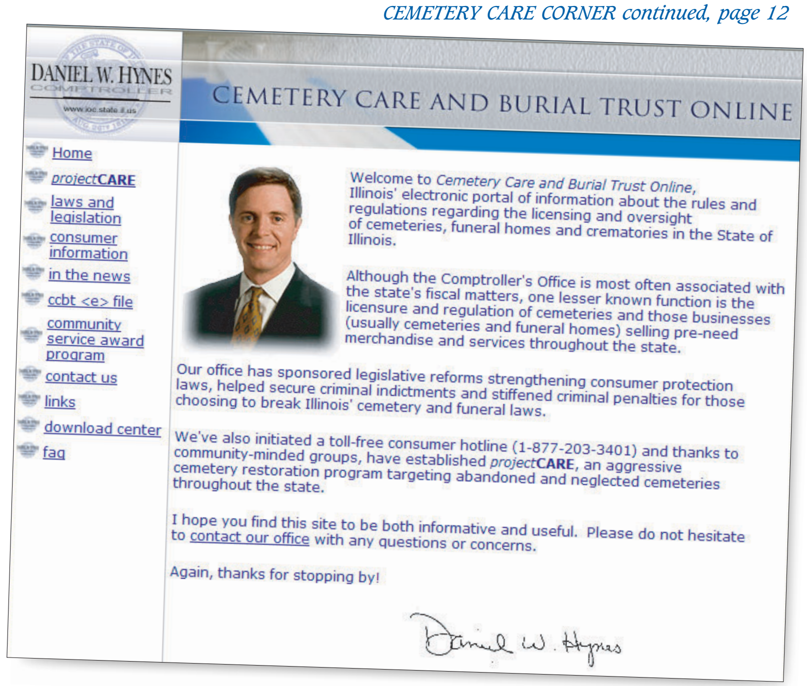

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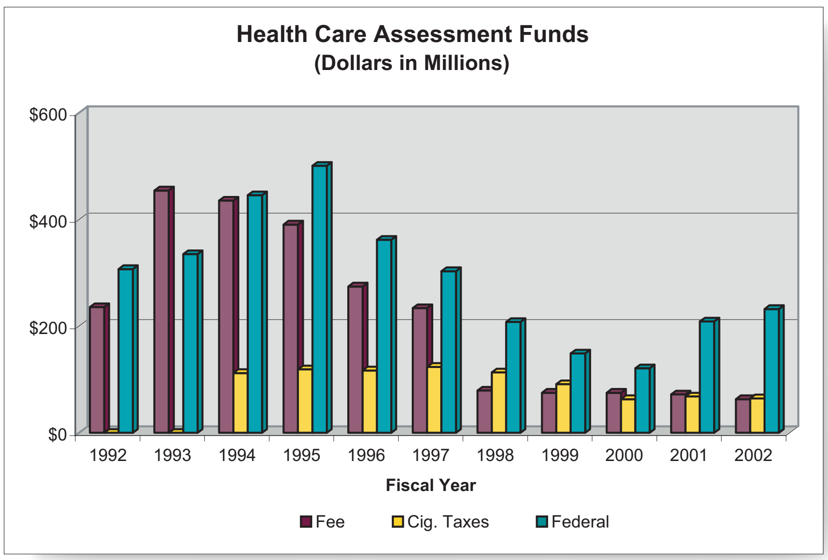
FOCUS On Revenue

Medicaid Provider Assessments and Intergovernmental Transfers

As Medicaid expenditures continue to absorb a growing portion of the state budget, any additional source of revenues that can be devoted to the Medicaid program is welcome. Since fiscal year 1992, some of the Medicaid burden has been taken off the General Funds through new revenue sources such as assessments on medical providers, contributions from local government and public university health care providers, and dedicated cigarette tax monies. Combined with federal matching funds, these new sources have provided additional funds for provider reimbursements and the expansion of state health care services.



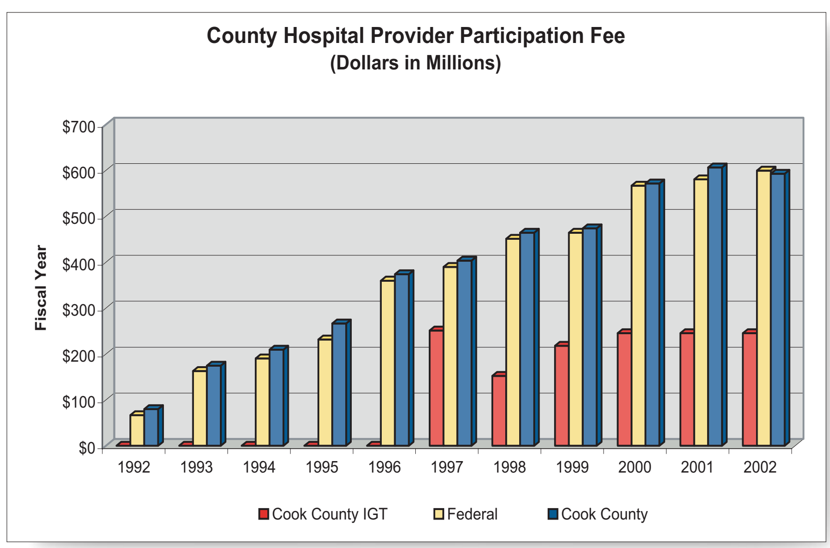
Illinois first tapped provider assessments as a source of Medicaid matching funds in fiscal year 1992. The original assessments included an assessment on hospitals equal to the difference between a hospital's anticipated annualized spending and its total base-year Medicaid spending, and assessments on long-term care providers (nursing facilities and intermediate care facilities for the mentally retarded (ICFs/MR)) equal to 15% of prior year receipts. Due to changes in the federal law, the assessments were amended in fiscal year 1993 to become general levies on medical providers with no relation to Medicaid payments. The assessment on nursing facilities was abolished in fiscal year 1994 and replaced with a quarterly $1.50 per bed per day nursing home license fee. This was supplemented by the dedication of a portion of the State cigarette tax to long-term care that year. Finally, the hospital provider assessment was eliminated effective July 1, 1997.

Assessment revenues from medical providers peaked at $454 million in fiscal year 1993 (when assessment funds also received $335 million in federal financial participation) and have since declined drastically with the elimination of the hospital provider assessment. In fiscal year 2002, $63 million in assessment revenue, $64 million in dedicated cigarette revenue, $160 million in General Funds transfers, plus $232 million in federal financial participation were deposited into provider assessment funds to pay nursing facility and ICF/MR services.

A second new source of Medicaid revenues has been intergovernmental transfers (IGT). There are currently two IGT agreements, one with the Cook County Board of Commissioners and the other with the Board of Trustees of the University of Illinois.

The Cook County IGT is based on federal law which provides that local governments may contribute up to 60% of the State's share of the Medicaid program. Illinois is one of many states that have long-standing arrangements for significant local funding. The federal financial participation from this program helps fund the Cook County Bureau of Health Services, which operates the largest

FOCUS ON REVENUE continued, page 13



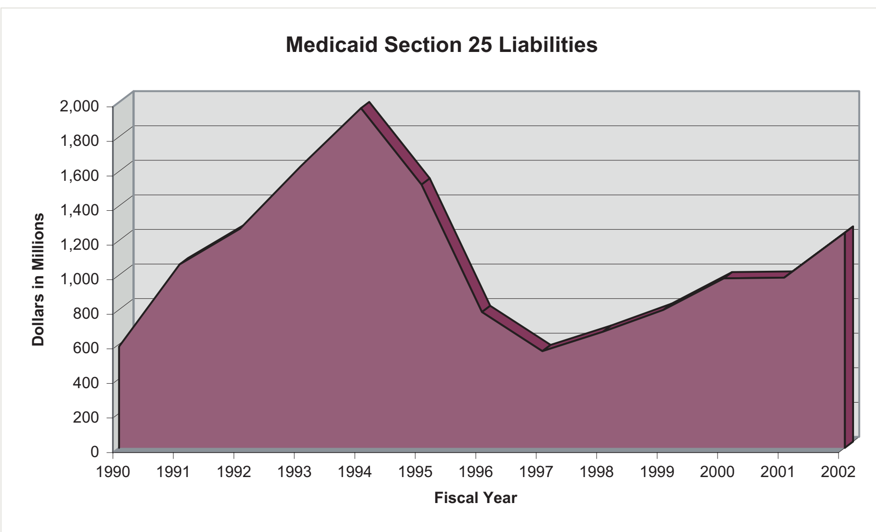
FOCUS On Spending

Section 25 Medicaid Liabilities

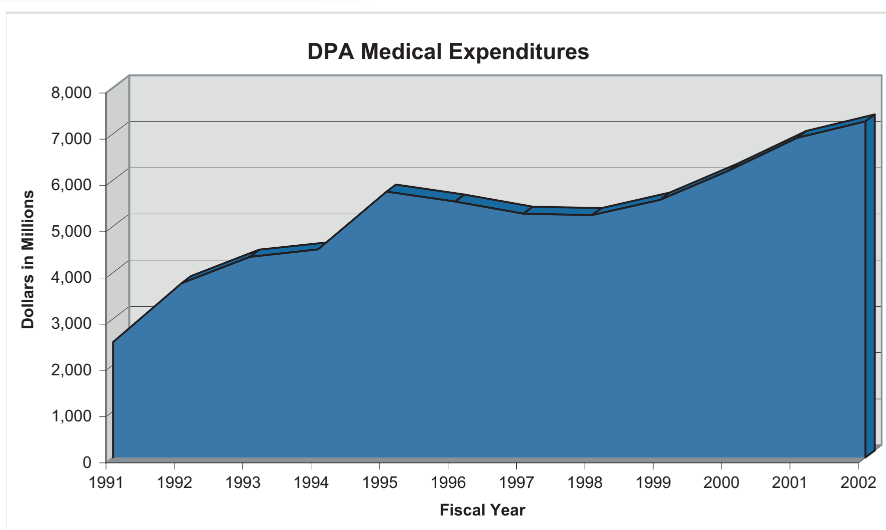
Section 25 of the State Finance Act provides that the state's fiscal year lasts from July 1 through June 30 and that expenditures for liabilities incurred within a given fiscal year be paid for from that year's appropriation, with certain exceptions. One of the exceptions is Medicaid liabilities. While Section 25 limits the exceptions, there is no limit on the dollar amount of the deferred liabilities.

During times of fiscal crisis, whether due to a shortfall in revenues or increased spending pressures, it has become the standard practice to defer liabilities under Section 25. It appears to be very difficult to reduce spending enough to balance the budget when financial problems arise and deferring spending is one way to reduce expenditures. Deferred Medicaid spending is by far the largest component of Section 25 liabilities.

The recent recession and the one in the early 1990s resulted in revenues falling below expectations, while medical costs experienced dramatic growth over the period. Section 25 Medicaid liabilities increased steadily from $586 million in fiscal year 1990 to $1.965 billion in fiscal year 1994. A surging economy with the corresponding revenue growth allowed for the reduction in Medicaid liabilities which fell to $560 million in fiscal year 1997. With the current fiscal problems, liabilities have started to grow once again and totaled $1.244 billion in fiscal year 2002. It appears that Section 25 Medicaid liabilities will in all likelihood follow the previous pattern and experience a substantial increase for the current fiscal year. The current backlog of Medicaid vouchers would utilize the remaining appropriations with three months left in the fiscal year.



While Section 25 liabilities fluctuate over the years, medical spending by the Department of Public Aid (DPA) has grown substantially over the years. DPA medical expenditures, which are primarily for Medicaid, grew rapidly from $2.498 billion in fiscal year 1991 to $5.753 billion in fiscal year 1995 as the state reduced Section 25 liabilities. For the next four years, spending was fairly consistent as fiscal year 1999 expenditures were still below fiscal year 1995 spending. Since then, despite the increase in Section 25 liabilities, expenditures have resumed their rapid growth and totaled $7.271 billion in fiscal year 2002. ■



Mandatory Medicaid Services *

Inpatient hospital care
Outpatient hospital care
Rural health clinic and federally qualified health center ambulatory services
Laboratory and x-ray services
Skilled nursing and home health services for individuals 21 years of age and older
Early and periodic screening, diagnosis and treatment for individuals under 21 years of age
Family planning services and supplies
Physician services
Nurse-midwife services
Nurse Practitioner
Home Health
- Nursing Services
- Home Health Aide
- Medical supplies, equipment and appliances
Extended services to pregnant women
- Pregnancy
- Post partum-related services
Ambulatory services to presumptively-eligible pregnant women
Pregnancy-related services and services for other conditions that might complicate pregnancy
Emergency Hospital Services
Medical and Surgical services performed by a dentist

* Provided in Illinois, FY 2001.

charged and no deductibles have to be met before coverage begins. Each state also has the discretion to provide other optional medical services beyond those mandated by the federal government (see table on optional services).

Although the federal government provides guidelines for the states to follow, each state has the authority to administer its own program by establishing eligibility standards, determining the type, amount, duration and scope of services, and setting the rate of payment for services. This discretion allows states some control over their spending obligations. For example, some states limit the number of prescriptions, inpatient hospital days, and various therapies a patient can receive each month.

According to a recent survey conducted by the Kaiser Commission on Medicaid and the Uninsured, forty-nine states were planning to reduce the rate of growth in Medicaid spending in fiscal year 2003 in order to balance state budgets. The most common measures included controlling prescription drug costs (45 states), reducing or freezing provider payments (37 states), reducing eligibility (27 states), reducing benefits (25 states), and increasing co-payments (17 states).

Medicaid Beneficiaries

The Medicaid program reaches people of all ages. For low-income children and their parents, Medicaid pays for essential primary and preventive health care services that these families otherwise could not afford. For elderly and disabled people, Medicaid fills gaps in Medicare coverage by helping Medicare beneficiaries with their prescription drug costs as well as other essential services, such as hearing aids and dental care. Medicaid also is the nation's largest payer of nursing home care, and each year, Medicaid helps millions of families with the cost of home-based long-term care services. Clearly, any reduction in state Medicaid spending could jeopardize coverage for people who depend on these health care services.

Medicaid in Illinois

The Illinois Department of Public Aid (DPA) is the single state agency for the Medicaid program which means that DPA serves as the state source for submitting claims to the federal government and for receiving federal reimbursements. However, there are many other Illinois governmental entities (counties,

Optional Medicaid Services *

Podiatric services	Skilled nursing facility services for individuals under 21 years of age
Optometric services	Care of individuals 65 years of age or older in institutions of mental disease
Chiropractic services	- Inpatient hospital services
Other practitioner services	- SNF services
Speech, hearing and language therapy services	- ICF services
Eyeglasses	Home and community based services through federal waivers
Screening services	Home and community based (1915(d)) waiver services functionally disabled elderly individuals
Dental services	Home and community based (1915(c)) waiver services
- Dentures	Respiratory care for ventilator-dependant individuals (home-based)
Clinic services	Services provided through a health maintenance organization
Physical therapy services	Services provided through a prepaid health plan
Occupational therapy services	Special tuberculosis-related services
Inpatient psychiatric services for individuals under 21 years of age	Rehabilitative services
Intermediate care facility services for the mentally retarded (ICF/MR)	Christian Science sanatoria and nursing services
Prescribed drugs	Medical social worker services
Prosthetic devices	Psychological services
Diagnostic services	Nurse anesthesia services
Preventive services	Hospice care services
Emergency hospital services	Transplants
Case management services	Transportation
Institutional services in Intermediate Care Facilities	Durable medical equipment and medical supplies
Nursing facility services for individuals under 21 years of age	

* Provided in Illinois, FY 2001.

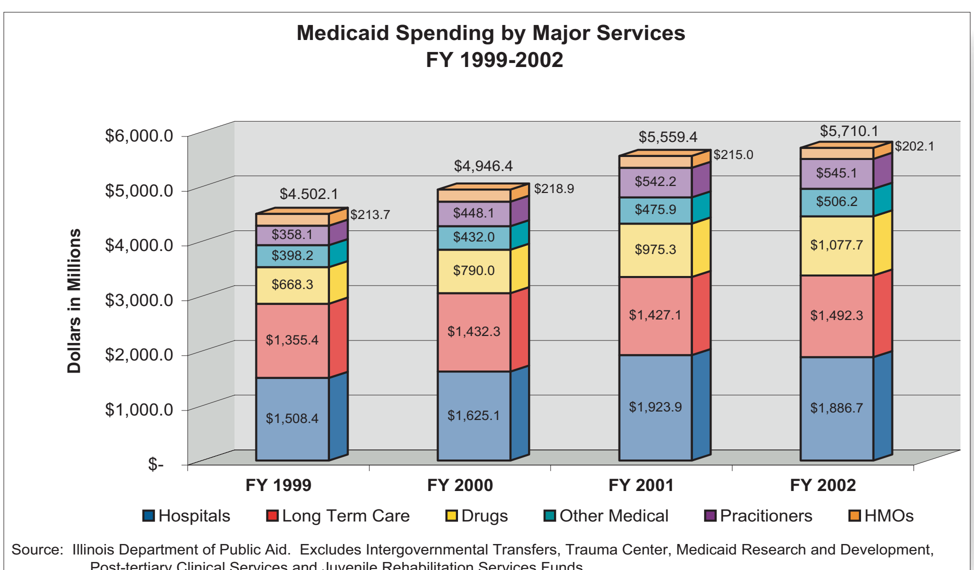
school districts, other state agencies, etc.) that administer portions of the program. Some of the other entities include the Department on Aging, Department of Children and Family Services, Department of Corrections, Department of Human Services, Department of Revenue, Illinois Council on Developmental Disabilities, Illinois State Board of Education, University of Illinois, City of Chicago (schools; local public health departments), counties (local public health departments; juvenile probation agencies), and local education agencies (school districts and special education cooperatives).

In total, Medicaid expenditures in Illinois reached slightly over $9 billion in fiscal year 2002. The majority of that spending was done by DPA which reported Medicaid expenditures of $5.7 billion (see bar chart). According to the Department of Public Aid, Medicaid accounts for 23.5% of the General Revenue Fund appropriations and 15.4% of the total state budget. An average of 180,000 Medicaid claims were processed per calendar day, and an average of 1.6 million people were covered per month.

Beneficiaries

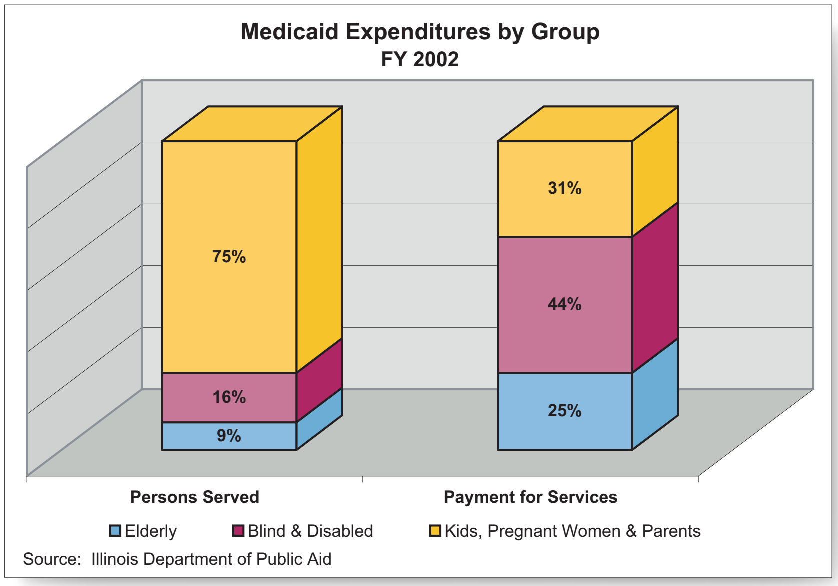
Children, non-disabled, low-income adults (mainly adults with children receiving cash assistance), and low-income pregnant women were the largest group representing 75% of the people who received Medicaid services at some point in fiscal year 2002. The second largest group was the blind and disabled at 16% followed by low-income elderly persons with 9%.

Although children as a group were part of the largest component of beneficiaries, they did not account for the majority of the spending. The elderly, blind and disabled who were in poorer health and needed more services comprised one-fourth of the beneficiaries but accounted for 69% of the spending. The elderly, blind and disabled received the greatest proportion of Medicaid funds.



Services with the Largest Share of Medicaid Spending

According to the Department of Public Aid, of Illinois' $5.7 billion in direct expenditures for fiscal year 2002, the three largest expenditure categories were hospitals (33%), long-term care services (26%), which is mostly nursing home care, and prescription drugs (19%).



Hospital care was the largest component of Illinois' Medicaid spending totaling $1.9 billion in fiscal year 2002. Illinois hospitals provided two million days of care for its Medicaid recipients and every hospital in Illinois, except Shriner's and Veterans Administration hospitals, does business with Medicaid.

Inpatient services received the most funds with 70% of total spending compared to outpatient services at 17%. Half the spending on inpatient care was for the elderly (9%) and disabled (41%) while a quarter was spent on deliveries/newborns (25%). Admissions for inpatient services were up 7% from fiscal year 2001 with approximately 400,000 admissions. The number of Medicaid enrollees using inpatient services has increased 11% over the last year to 295,047 enrollees.

Some hospitals also received Disproportionate Share Hospital (DSH) payments.

COVER STORY continued, page 12

Cover Story continued from page 11

The DSH program allows hospitals that serve large numbers of Medicaid eligibles and the uninsured to recover additional federal funds (see sidebar on Acronyms).

Long-term care (LTC) was the second largest component of Illinois' Medicaid spending totaling $1.5 billion, of which 97% of the money spent in fiscal year 2002 was spent on nursing home facilities. Supportive living facilities are the fastest growing component of expenditures for LTC. Supportive living facilities days grew by 325% from the end of fiscal year 2001 to the end of fiscal year 2002 and are expected to grow another 100% by the end of fiscal year 2003. They provide a form of assisted living by offering combined housing, personal and health related services for individuals who would otherwise be institutionalized in a nursing facility.

Lastly, spending on prescription drugs totaled $1.1 billion in fiscal year 2002. Illinois's Medicaid spending on prescription drugs grew by 36.4% from 2000 to 2002, making it the fastest growing component of Medicaid spending. Not only are prescription drug prices increasing, but there is also growth in the utilization of drug therapies in lieu of institutional care. The usage rate per individual and the average rate per script are increasing due to new drug therapies. Brand name drugs represented approximately 67%, generic 28% and over-the-counter 5% of spending in fiscal year 2002. In fact, Medicaid spending for brand name drugs has been increasing at a rate in excess of 25% per year.

Medicaid Acronyms: From DSHs to UPLs to IGTs

Since 1981, hospitals that serve a "disproportionate" share of low-income Medicaid and uninsured patients (commonly referred to as DSHs) have been eligible to receive supplemental payments from the federal government. Unlike regular Medicaid reimbursements, DSH payments are not open-ended. They do not reflect the number of Medicaid beneficiaries, the number of DSH hospitals, or the number of inpatient hospital days provided. Rather, DSH payments are capped by amounts set in federal statutes, and states can claim DSH payments up to the ceilings imposed by the Congress.

[NOTE: Although DSH payments were initiated to help pay the costs for Medicaid inpatient services, they also can be used to pay for the costs of providing outpatient services to Medicaid and uninsured patients. Second, the source of the non-federal share of Medicaid spending can be the state government, or it can come from county or other local funds. Third, the amount of Medicaid payments to individual hospitals or nursing homes can exceed the costs of providing those services provided that the aggregate ceiling or upper payment limit (UPL) applicable to all hospitals is not reached.]

It did not take long for some states to take advantage of these features of the Medicaid law to gain additional federal dollars. For example, assume a state's matching rate is 50% and that a county hospital provides inpatient Medicaid services at a cost of $100. If the county hospital makes an intergovernmental transfer (IGT) of $50 to the state, and the state pays the county hospital $150, the state can claim $75 in Medicaid matching funds from the federal government. The net effect is that the county hospital gets $100 to cover its costs ($150 from the state minus the $50 IGT), the federal government contributes 75% of the costs ($75 of the $100), and the state contributes just 25% of the costs ($150 paid to the county hospital offset by the $50 IGT and the $75 from the federal government).

The federal government has issued regulations to phase-out such state practices in an attempt to save $9 billion over the 5-year period from fiscal year 2002-2006.

Medicaid Expenditures Are Expected To Increase

According to the Center on Budget and Policy Priorities, Medicaid expenditures are expected to rise between 2002 and 2004 because of increases in health care costs for the current caseload, particularly increases in the cost of caring for aged and disabled beneficiaries. Although some Medicaid spending growth results from the cost of care for children or non-elderly adults, the effects on Medicaid costs are surprisingly small. Four fifths (82%) of the projected Medicaid expenditure growth reflects increases in the cost of caring for aged and disabled Medicaid beneficiaries. This includes an increase in the number of individuals in these groups who are on Medicaid, and in the per capita cost of covering individuals in these groups.

Health care cost pressures are not unique to Medicaid; they are also affecting insurance premiums for private sector employees and state and federal govern-

COVER STORY concluded on page 14

Cemetery Care Corner concluded from page 7

The goal of improving the web site was to put as much information as possible at the fingertips of Illinois residents. We believe that the Cemetery Care and Burial Trust Division has succeeded by providing a wealth of information and resources in an easy to navigate web site. Whether it is a licensing matter, a consumer question, or simply an interest in how a community is preserving their ancestry, the information is there. If more information is needed than what is available online, the web site makes it easy to contact the Comptroller's Office through e-mail or the toll-free CCBT Hotline (1-800-203-3401). Please take a look to judge for yourself at www.illinoiscomptroller.com/office/ccbt/. ■

Focus On Revenue continued from page 8

health care system in the state. The Cook County hospitals are the largest providers of both services to Medicaid-eligible individuals and families and uncompensated care. They are a critical component of the state's health care safety net.

Based upon claims for services to Medicaid-eligible individuals and a formula in state law, Cook County makes payments to the County Hospital Services Fund. Matching federal funds are drawn, and Medicaid payments are made to the county's hospitals and clinics. Cook County then sends a portion of the funds to the state through an intergovernmental transfer (IGT) into the General Revenue Fund. These funds are used to pay for additional medical services throughout Illinois. In fiscal year 2002, Cook County paid $593 million in health care participation fees that were matched by $600 million in federal aid into the County Hospital Services Fund. These deposits allowed Medicaid payments of over $1.2 billion from this fund. An IGT equal to $245 million to the General Funds enhanced Medicaid spending for the state.

The University of Illinois IGT is based on federal regulations that set maximum payments to state-owned hospitals. A contribution from the University of Illinois, an annual $45 million General Revenue Fund transfer, and the federal financial participation are deposited into the University of Illinois Hospital Services Fund. This balance is then used for reimbursement to the University of Illinois Hospital, a world class teaching hospital on Chicago's near west side, for hospital services. Surplus funds are returned to the General Revenue Fund. In fiscal year 2002, $73 million from the University of Illinois plus a $45 million transfer from the General Revenue Fund were matched by $106 million in federal aid. These monies allowed payment of $154 million to the University of Illinois and a $66 million transfer to the General Revenue Fund (netting the state $21 million).

During spring of 2001, the federal Department of Health and Human Services promulgated a rule that redefined the upper payment level (UPL) applicable to non-state government owned or operated hospitals. States, like Illinois, that were reimbursing this class of hospitals in excess of the redefined UPL were required to phase out the excess payments. Illinois is subject to a six-year transition (phase out) period beginning with fiscal year 2004. This change at the federal level would cost the state and Cook County nearly $1 billion in federal aid through fiscal year 2010.

However, the same federal act (the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000) that required transition to the redefined UPL provided additional Medicaid funding outside of the UPL for the hospitals operated by Cook County. Section 701(d) of the Act allows the state, through Medicaid payments to the three hospitals, to more than offset the loss in federal aid due to the redefinition of the UPL. The Department of Public Aid took action to initiate the first of these payments during fiscal year 2003. ■

Fiscal Forum

Should the federal government increase the FMAP for states by 2% to 5% during difficult economic times (or economic recessions)?

YES ☐ NO ☐

To respond to this question, simply log onto the Comptroller's Web site at www.ioc.state.il.us. ■

Fiscal Smarts concluded from page 4

It is important to note that even though a fiscal year may begin with a balance deemed sufficient for operating purposes, variations in revenue or spending from the norm or an unbalanced budget can still create a poor cash flow situation. One example of this is fiscal year 2001 which ended with a budgetary surplus of $300 million and started with an operational surplus of $18 million. At the end of March during that fiscal year $277 million in bills were being held from the General Revenue Fund as the balance in the fund was just $46 million. The reason cash flow problems developed is that the imbalance in revenue and spending was greater than the average of 3.1%. This was due to the temporary exemption of motor fuel from the sales tax in the first half of the fiscal year.

Deficit to Begin Fiscal Year 2004

As stated earlier, the budgetary deficit to begin fiscal year 2004 is projected to be a negative $1.6 billion with an estimated end-of-year balance of $275 million and estimated lapse period spending of $1.875 billion. From an operating standpoint, due to the seasonal imbalance in revenue and spending, an additional 3.1% of fiscal year 2004 spending is needed to start the fiscal year. With spending projected by the Bureau of the Budget to be $26.550 billion for fiscal year 2004, this would require an additional $823 million on top of the $1.6 billion. Assuming normal cash flow, and that the budget is balanced for fiscal year 2004, a beginning cash balance in excess of $2.4 billion would be needed to avoid payment delays during the year. ■

Cover Story concluded from page 12

ment workers. The underlying causes include rising prescription drug expenses, advances in medical technology, and reductions in managed care savings. In addition, Medicaid costs are increasing because of gaps in federal Medicare coverage for seniors and persons with disabilities. About 35% of all Medicaid expenditures are for dual eligibles (persons enrolled in Medicare and Medicaid), and Medicaid absorbs the costs not paid for by the Medicare program.

The Impact of Medicaid Spending on State Economies

In the short term, attempts to balance state budgets focus attention on curtailing or limiting expenditures. However, attempts to cut spending often ignore the positive economic aspects of government programs. In addition to providing health care services to recipients, Medicaid plays a unique role in stimulating state business activity and state economies. Because Medicaid is a joint-federal-state responsibility, every dollar a state spends on Medicaid brings additional federal dollars into the state – dollars that would have not otherwise come into the state. The additional dollars generate business activity, create new jobs, and increase aggregate wages.

Business Activity - According to Families, USA, in fiscal year 2001, the average value of increased business activity generated from state Medicaid spending was nearly $6 billion per state. The total value of increased business activity generated by state Medicaid spending ranged from $33.9 billion to $298 million.

- Illinois was one of ten states with the largest increase in business activity attributed to state Medicaid spending with $10.2 billion in fiscal year 2001. An estimated $11.7 billion is expected for fiscal year 2003.

Jobs - Fiscal year 2001 state Medicaid spending generated almost 3 million jobs with wages in excess of $100 billion in the 50 states. These jobs included Medicaid personnel, other employment in the health care sector, and jobs generated as the Medicaid dollars circulated through different sectors of the economy.

- Illinois was one of ten states with the largest number of jobs generated by state Medicaid spending with 98,435 in fiscal year 2001. An estimated 105,753 jobs is expected for fiscal year 2003.

Wages - The average increase in employee wages attributable to state Medicaid spending was $2 billion per state. The increase in employee wages attributable to state Medicaid spending ranged from $11.7 billion to $114 million.

- Illinois was one of the ten states with the largest increase in wages attributable to state Medicaid spending with $3.6 billion. Illinois is expecting $4.1 billion for fiscal year 2003.

Conclusion

Medicaid provides a vital health care safety net in every state. It is a lifeline to health care for children, people with disabilities or chronic illness, and low-income elderly people. Medicaid is the only source of financial help for millions of families struggling to pay for nursing home or other long-term care services for a parent of family member. Every Medicaid spending decision made by state policy makers affects people in very real and often irrevocable ways. At the same time, the economic downturn and state budget deficits are forcing state policy makers to confront hard choices about state spending priorities, and many are contemplating cuts in services.

In the proposed federal fiscal year 2004 budget, President Bush has requested turning Medicaid into a block grant that provides no real financial relief for the states and leaves some beneficiaries open to possible benefit cuts or the elimination of health care coverage. The President has proposed an additional $12.7 billion in Medicaid funding over seven years ($3.25 billion in fiscal year 2004) but the added funds are limited to states that agree to convert to a Medicaid block grant with capped funding regardless of the number of new beneficiaries joining the program. States that prefer to continue under the existing open-ended reimbursement program are ineligible for this additional assistance.

The President describes his approach as giving states a choice, but at a time when states are starved for resources, this is a limited choice at best. In fact, even states that accept the President's plan will get no overall increase in funding over the next ten years. The extra funds the President proposes now stop after seven years; thereafter, participating states essentially are required to pay the advances back as federal Medicaid contributions decline.

This Medicaid proposal has been criticized by state and local interest groups and its fate in Congress in uncertain. In fact, as part of a proposed economic stimulus proposal, some congressmen have advocated a one-year, $10 billion increase in the federal share of Medicaid where each state would receive a 2% increase in its FMAP (high unemployment states would receive a 2.5% increase). This congressional proposal accepts the argument that new federal dollars are a powerful stimulus to state economies. The federal dollars that flow into a state to match state Medicaid spending generate new business activity, increase output of goods and services, create new jobs, and increase aggregate state income. In turn, these positive effects increase state revenues, which can then support further state spending. ■

A Monthly Look
At State Finance

Vital Statistics

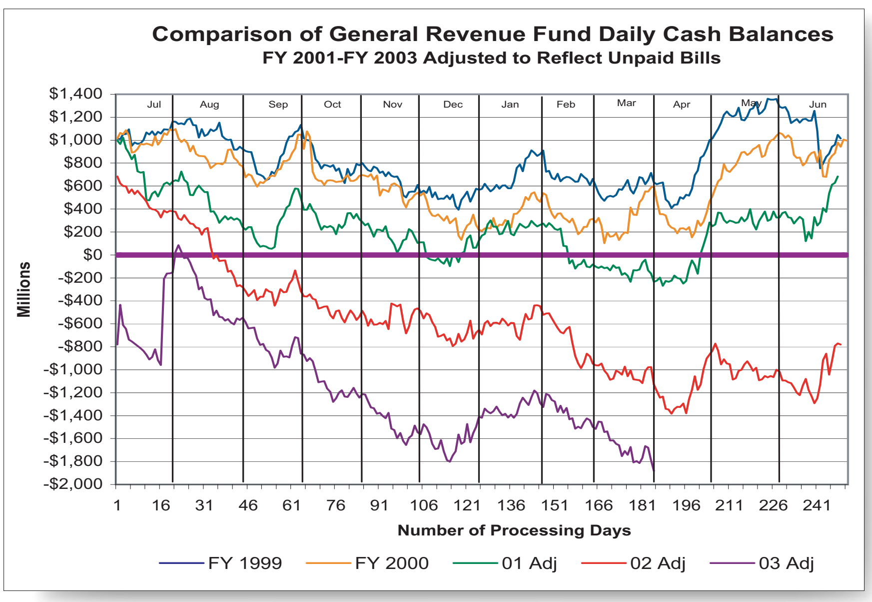
The Heartbeat of Illinois' Finance

Revenues Fail To Meet Expectations - Fiscal Crisis Deepens

During the third quarter, Illinois' General Funds performance continued to fall short of projections, exacerbating the state's already serious cash flow difficulties. With base revenues down compared to the prior year, it appears likely that the state will experience its second straight year of declining receipts, with annual revenues falling over $1.0 billion short of the estimates used to craft the fiscal year 2003 budget. The primary factors in these declines again are reduced from sources tied directly to the economy, namely, personal and corporate income taxes and sales taxes.

These conditions have created an unprecedented backlog of unpaid bills which now approaches $2 billion. In addition to this record-setting sum, the Department of Public Aid is holding approximately $1.0 billion in Medicaid bills and other obligations.

The backlog of unpaid bills translated into payment delays of 47 business days during March, excluding the time an agency takes to process a bill for presentation to the Comptroller's office.



As a practical matter, this means that some providers of vital goods and services to the state, particularly health care providers, have yet to be paid for services rendered last autumn. Facility closings have occurred and more are likely as vendors struggle to maintain their operations. Routine state functions are threatened with disruption since payments such as rent, insurance, utilities and commodities purchases remain unpaid.

Given the outlook for the final quarter, this situation appears unlikely to improve to any substantial degree. Cash management pressures in the fourth quarter, including debt service, will not permit an alleviation of payment problems for state vendors.

Base Revenues Decrease 0.4%

Total base revenues in the General Funds (excluding short-term borrowing and a transfer from the Budget Stabilization Fund) totaled $16.391 billion through the third quarter, a decrease of $70 million or 0.4%. State sources were up $89 million (0.7%) while federal sources declined $159 million (5.4%). Transfers in grew $296 million while cash receipts from state sources fell $207 million. After nine months, the economy continues to hold down income and sales tax receipts and offset the increase in certain revenues from one-time factors.

The slow growing economy has had a major impact on income and sales taxes revenues. Income taxes dropped $162 million with individual income taxes down $104 million (2.0%) and corporate down $58 million (10.9%). Sales taxes are down $37 million or 0.8%. In addition, investment income fell $60 million (54.1%) due to lower interest rates and investable balances. Inheritance tax revenues are down by $65 million (25.6%) due to federal tax law changes. Public utility tax receipts decreased $72 million (8.8%) with telecommunication tax receipts responsible for the decline.

Declining receipts have been offset by the deposit into the General Funds of $88 million in tobacco settlement escrow monies per court order. Cook County intergovernmental transfers were up $66 million due to a change in the transfer agreement.

Transfers in are up primarily due to one-

VITAL STATISTICS continued page 16

Vital Statistics concluded from page 15

time factors. In July, $156 million was transferred from various funds as a cash infusion into the General Revenue Fund (GRF). Protest Fund transfers are up $52.3 million due to the settlement of insurance privilege tax cases. Additionally, Gaming Fund transfers increased $82 million as a result of the riverboat tax increase.

Although federal sources are down $159 million, they are estimated to decrease by $183 million for the year.

Base Expenditures Down 2.4%

Through March, General Funds base expenditures (which exclude $200 million in transfers to repay short-term borrowing) totaled $17.249 billion, $419 million or 2.4% below last year. This stands in sharp contrast to the first half of the year when spending grew $58 million. Through the first half of fiscal year 2003 grant spending was up $272 million while operations spending decreased by $164 million. In the third quarter alone grant spending declined by $346 million while operations spending decreased by another $137 million compared to last year.

The bulk of the spending slowdown occurred in Medicaid. Through the first half of the fiscal year, Medicaid spending was up $430 million or 17.4%. Through three quarters of the fiscal year, Medicaid spending is up just $132 million or 3.6%. The slowdown was expected as Medicaid had exhausted 58.8% of it's appropriations through the first half of the fiscal year compared to only 48.7% in the first half of fiscal year 2002. Through three quarters of the year, Medicaid has expended 76.7% of its appropriations compared to 70.9% last year. Along with the fact that Medicaid appropriations are $142 million lower than the previous year, spending should be substantially lower comparatively again in the fourth quarter. The spike in Medicaid spending in the first half of the fiscal year was due to a concentrated effort to dedicate short-term borrowing dollars to the backlog of Medicaid vouchers in an effort to maximize federal matching dollars returned to the General Revenue Fund.

Besides the increase in Public Aid grant spending, other areas of spending which increased over the first three quarters of the fiscal year include State Board of Education grants which increased $88 million or 2.5% (due primarily to timing as appropriations are down $66 million) and Teachers' Retirement System grants which are up $82 million or 13.3%.

Areas of spending showing declines through nine months include Human Services grants (down $23 million or 1.1%), higher education grants (down $87 million or 11.5%), all other grants (down $266 million or 22.9%), regular state operations (down $249 million or 6.4%), higher education operations (down $52 million or 3.5%), regular transfers out (down $105 million or 7.1% due to a lack of cash) and all other spending which includes permanent improvements, refunds and prior year adjustments (down $28 million or 63.6%).

Through the first three quarters of fiscal year 2003, 72.7% of current year's appropriations have been expended compared to only 70.4% in fiscal year 2002. Non-Medicaid spending has used 71.5% of appropriations in 2003, slightly higher than the 70.3% expended in 2002.

What Lies Ahead

As indicated in the graph, the GRF cash flow crisis continued to worsen during the third quarter of fiscal year 2003 and in comparison to last year. Illinois entered last March (2002) with $970 million in unpaid bills. Over the month, the backlog of bills grew to $1.163 billion, an increase of $193 million. At the same time, payment delays climbed from 18 days to 24 days. This year, March (2003) began with $1.527 billion in unpaid bills and payment delays of 39 days. The month ended with a backlog of $1.913 billion (up $386 million) and payment delays of 45 business days. Both the level of unpaid bills and the number of days delayed are the highest on record.

The backlog of unpaid bills at the end of March included $461 million in Medicaid, $1.308 billion in non-Medicaid, and $144 million in fund transfers.

In addition to the continuing collapse of revenues, the level of unpaid bills was influenced by the need to set aside $200 million from the GRF for repayment of last July's short-term borrowing. Due to the receipt of personal income tax final payments, April revenues are expected to outpace spending demands. As a result, the backlog of unpaid bills is expected to drop over the course of the month. However, that improvement will be dampened by the need to continue setting resources aside for repayment of short-term borrowing. For April, the Comptroller's Office is planning to set aside $175 million for that purpose.

In order for the final quarter to show noticeable improvement, revenue growth must accelerate and spending growth slow dramatically. Spending is likely to continue to slow, due in part to recent efforts to cut spending from current year appropriations. The remaining question is whether revenue growth will rebound.

Unfortunately, there is no indication that an economic turnaround is eminent. In fact, available data continue to point towards a continued slide in revenues. At this time, there appears to be a strong likelihood that fiscal year 2003 revenues will actually drop for the second year. Even if spending slows markedly, the continuing weakness in revenues and the need to set aside money for both the repayment of the $700 million short-term borrowing and repayment of the $226 million borrowed from the Budget Stabilization Fund make it likely that cash flow difficulties will continue to worsen for the rest of the year. ■

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

		Seven Months	Change From Prior Year	
	Jan. 2003	FY 2003	$	%
Total General Funds				
Available Balance	$ 163	$ 256	$ (870)	(77.3) %
Revenues	1,984	14,037	777	5.9
Expenditures	2,007	14,153	(18)	(0.1)
Ending Balance	$ 140	$ 140	$ (75)	(34.9) %
General Revenue Fund				
Available Balance	$ 19	$ 0	$ (683)	(100.0) %
Revenues	1,695	11,992	714	6.3
Expenditures	1,704	11,982	85	0.7
Ending Balance	$ 10	$ 10	$ (54)	(84.4) %
Common School Special Account Fund				
Available Balance	$ 63	$ 37	$ (29)	(43.9) %
Revenues	136	911	(4)	(0.4)
Expenditures	122	871	(32)	(3.5)
Ending Balance	$ 77	$ 77	$ (1)	(1.3) %
Education Assistance Fund				
Available Balance	$ 58	$ 198	$ (157)	(44.2) %
Revenues	88	700	78	12.5
Expenditures	120	872	(62)	(6.6)
Ending Balance	$ 26	$ 26	$ (17)	(39.5) %
Common School Fund				
Available Balance	$ 23	$ 21	$ 0	0.0 %
Revenues	247	1,445	(19)	(1.3)
Expenditures	243	1,439	(16)	(1.1)
Ending Balance	$ 27	$ 27	$ (3)	(10.0) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

		Seven Months	Change From Prior Year	
Revenues:	Jan. 2003	FY 2003	$	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 783	$ 4,093	$ (87)	(2.1) %
Corporate	28	315	(50)	(13.7)
Total, Income Taxes	$ 811	$ 4,408	$ (137)	(3.0) %
Sales Taxes	544	3,660	(17)	(0.5)
Other Sources:				
Public Utility Taxes	106	579	(49)	(7.8)
Cigarette Taxes	33	233	0	0.0
Inheritance Tax (gross)	24	160	(45)	(22.0)
Liquor Gallonage Taxes	14	78	2	2.6
Insurance Taxes and Fees	4	133	18	15.7
Corporation Franchise Tax and Fees	14	81	(18)	(18.2)
Investment Income	5	42	(52)	(55.3)
Cook County IGT	0	175	21	13.6
Other	30	239	99	70.7
Total, Other Sources	$ 230	$ 1,720	$ (24)	(1.4) %
Total, Cash Receipts	$ 1,585	$ 9,788	$ (178)	(1.8) %
Transfers In:				
Lottery Fund	$ 43	$ 287	$ (1)	(0.3) %
State Gaming Fund	29	378	88	30.3
Other Funds	22	391	211	117.2
Total, Transfers In	$ 94	$ 1,056	$ 298	39.3 %
Total, State Sources	$ 1,679	$ 10,844	$ 120	1.1 %
Federal Sources:				
Cash Receipts	$ 301	$ 2,249	$ (3)	(0.1) %
Transfers In	4	18	(40)	(69.0)
Total, Federal Sources	$ 305	$ 2,267	$ (43)	(1.9) %
Total, Base Revenues	**$ 1,984**	**$ 13,111**	**$ 77**	**0.6 %**
Short-Term Borrowing	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	226	0	0.0
Total, Revenues	$ 1,984	$ 14,037	$ 777	5.9 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

		Seven Months	Change From Prior Year	
Expenditures:	Jan. 2003	FY 2003	$	%
Awards and Grants:				
Public Aid	$ 296	$ 3,203	$ 327	11.4 %
Elem. & Sec. Education:				
State Board of Education	342	2,732	71	2.7
Teachers Retirement	78	543	64	13.4
Total, Elem. & Sec. Education	$ 420	$ 3,275	$ 135	4.3 %
Human Services	235	1,662	14	0.8
Higher Education	46	451	(93)	(17.1)
All Other Grants	100	775	(189)	(19.6)
Total, Awards and Grants	$ 1,097	$ 9,366	$ 194	2.1 %
Operations:				
Other Agencies	$ 437	$ 2,944	$ (128)	(4.2) %
Higher Education	175	1,178	(11)	(0.9)
Total, Operations	$ 612	$ 4,122	$ (139)	(3.3) %
Transfers Out	$ 162	$ 1,084	$ (90)	(7.7) %
All Other	$ 2	$ 13	$ (25)	(65.8) %
Vouchers Payable Adjustment	$ 134	$ (432)	$ 42	N/A
Total, Base Expenditures	**$ 2,007**	**$ 14,153**	**$ (18)**	**(0.1) %**
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	$ 2,007	$ 14,153	$ (18)	(0.1) %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

		Seven Months	Change From Prior Year	
	Jan. 2003	FY 2003	$	%
Personal Services:				
Regular Positions	$ 226	$ 1,418	$ (23)	(1.6) %
Other Personal Services	20	148	(5)	(3.3)
Total, Personal Services	$ 246	$ 1,566	$ (28)	(1.8) %
Contribution Retirement	47	312	17	5.8
Contribution Social Security	16	103	0	0.0
Contribution Group Insurance	56	402	37	10.1
Contractual Services	45	334	2	0.6
Travel	1	11	(4)	(26.7)
Commodities	7	58	(22)	(27.5)
Printing	1	5	(1)	(16.7)
Equipment	1	16	(7)	(30.4)
Electronic Data Processing	2	29	(2)	(6.5)
Telecommunications	5	34	1	3.0
Automotive Equipment	1	11	0	0.0
Other Operations	184	1,241	(132)	(9.6)
Total, Operations	$ 612	$ 4,122	$ (139)	(3.3) %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

		Seven Months	Change From Prior Year	
	Jan. 2003	FY 2003	$	%
State Board of Education:				
General State Aid	$ 260	$ 1,582	$ (37)	(2.3) %
All Other	82	1,150	108	10.4
Public Aid	296	3,203	327	11.4
Human Services	235	1,662	14	0.8
Higher Education:				
Student Assistance Commission	39	224	(75)	(25.1)
Community College Board	6	185	(8)	(4.1)
Other	1	42	(10)	(19.2)
Teacher's Retirement	78	543	64	13.4
Children and Family Services	59	388	(35)	(8.3)
Aging	18	130	(4)	(3.0)
Revenue	0	3	(81)	(96.4)
All Other	23	254	(69)	(21.4)
Total, Awards and Grants	$ 1,097	$ 9,366	$ 194	2.1 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

			Eight Months	
			Change From Prior Year	
	Feb. 2003	FY 2003	$	%
Total General Funds				
Available Balance	$ 140	$ 256	$ (870)	(77.3) %
Revenues	1,525	15,561	786	5.3
Expenditures	1,547	15,699	(77)	(0.5)
Ending Balance	$ 118	$ 118	$ (7)	(5.6) %
General Revenue Fund				
Available Balance	$ 10	$ 0	$ (683)	(100.0) %
Revenues	1,292	13,284	725	5.8
Expenditures	1,274	13,256	36	0.3
Ending Balance	$ 28	$ 28	$ 6	27.3 %
Common School Special Account Fund				
Available Balance	$ 77	$ 37	$ (29)	(43.9) %
Revenues	101	1,011	(10)	(1.0)
Expenditures	124	994	(36)	(3.5)
Ending Balance	$ 54	$ 54	$ (3)	(5.3) %
Education Assistance Fund				
Available Balance	$ 26	$ 198	$ (157)	(44.2) %
Revenues	65	765	78	11.4
Expenditures	67	939	(81)	(7.9)
Ending Balance	$ 24	$ 24	$ 2	9.1 %
Common School Fund				
Available Balance	$ 27	$ 21	$ 0	0.0 %
Revenues	280	1,725	(48)	(2.7)
Expenditures	296	1,735	(34)	(1.9)
Ending Balance	$ 11	$ 11	$ (14)	(56.0) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

			Eight Months	
			Change From Prior Year	
	Feb. 2003	FY 2003	$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 567	$ 4,659	$ (56)	(1.2) %
Corporate	4	319	(60)	(15.8)
Total, Income Taxes	$ 571	$ 4,978	$ (116)	(2.3) %
Sales Taxes	404	4,064	(39)	(1.0)
Other Sources:				
Public Utility Taxes	72	652	(56)	(7.9)
Cigarette Taxes	33	266	0	0.0
Inheritance Tax (gross)	15	175	(54)	(23.6)
Liquor Gallonage Taxes	8	86	2	2.4
Insurance Taxes and Fees	6	139	20	16.8
Corporation Franchise Tax and Fees	10	91	(17)	(15.7)
Investment Income	5	47	(56)	(54.4)
Cook County IGT	44	219	65	42.2
Other	17	256	109	74.1
Total, Other Sources	$ 210	$ 1,931	$ 13	0.7 %
Total, Cash Receipts	$ 1,185	$ 10,973	$ (142)	(1.3) %
Transfers In:				
Lottery Fund	$ 48	$ 335	$ 4	1.2 %
State Gaming Fund	20	399	84	26.7
Other Funds	7	397	207	108.9
Total, Transfers In	$ 75	$ 1,131	$ 295	35.3 %
Total, State Sources	$ 1,260	$ 12,104	$ 153	1.3 %
Federal Sources:				
Cash Receipts	$ 258	$ 2,507	$ (33)	(1.3) %
Transfers In	7	24	(34)	(58.6)
Total, Federal Sources	$ 265	$ 2,531	$ (67)	(2.6) %
Total, Base Revenues	**$ 1,525**	**$ 14,635**	**$ 86**	**0.6 %**
Short-Term Borrowing	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	226	0	0.0
Total, Revenues	$ 1,525	$ 15,561	$ 786	5.3 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

			Eight Months	
			Change From Prior Year	
Expenditures:	Feb. 2003	FY 2003	$	%
Awards and Grants:				
Public Aid	$ 289	$ 3,492	$ 215	6.6 %
Elem. & Sec. Education:				
State Board of Education	338	3,070	57	1.9
Teachers Retirement	78	621	73	13.3
Total, Elem. & Sec. Education	$ 416	$ 3,691	$ 130	3.7 %
Human Services	190	1,852	(14)	(0.8)
Higher Education	159	610	(76)	(11.1)
All Other Grants	62	837	(224)	(21.1)
Total, Awards and Grants	$ 1,116	$ 10,482	$ 31	0.3 %
Operations:				
Other Agencies	$ 343	$ 3,287	$ (215)	(6.1) %
Higher Education	168	1,347	(5)	(0.4)
Total, Operations	$ 511	$ 4,634	$ (220)	(4.5) %
Transfers Out	$ 154	$ 1,238	$ (37)	(2.9) %
All Other	$ 2	$ 14	$ (26)	(65.0) %
Vouchers Payable Adjustment	$ (236)	$ (669)	$ 175	N/A
Total, Base Expenditures	**$ 1,547**	**$ 15,699**	**$ (77)**	**(0.5) %**
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	$ 1,547	$ 15,699	$ (77)	(0.5) %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

			Eight Months	
			Change From Prior Year	
	Feb. 2003	FY 2003	$	%
Personal Services:				
Regular Positions	$ 170	$ 1,588	$ (63)	(3.8) %
Other Personal Services	20	168	(8)	(4.5)
Total, Personal Services	$ 190	$ 1,756	$ (71)	(3.9) %
Contribution Retirement	41	353	15	4.4
Contribution Social Security	13	115	(2)	(1.7)
Contribution Group Insurance	46	448	23	5.4
Contractual Services	34	368	(2)	(0.5)
Travel	1	12	(4)	(25.0)
Commodities	6	63	(26)	(29.2)
Printing	0	6	(1)	(14.3)
Equipment	0	17	(7)	(29.2)
Electronic Data Processing	3	33	(1)	(2.9)
Telecommunications	5	39	1	2.6
Automotive Equipment	1	12	0	0.0
Other Operations	171	1,412	(145)	(9.3)
Total, Operations	$ 511	$ 4,634	$ (220)	(4.5) %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

			Eight Months	
			Change From Prior Year	
	Feb. 2003	FY 2003	$	%
State Board of Education:				
General State Aid	$ 260	$ 1,842	$ (46)	(2.4) %
All Other	78	1,228	103	9.2
Public Aid	289	3,492	215	6.6
Human Services	190	1,852	(14)	(0.8)
Higher Education:				
Student Assistance Commission	57	281	(67)	(19.3)
Community College Board	86	271	(13)	(4.6)
Other	16	58	4	7.4
Teacher's Retirement	78	621	73	13.3
Children and Family Services	26	414	(59)	(12.5)
Aging	19	149	0	0.0
Revenue	0	3	(81)	(96.4)
All Other	17	271	(84)	(23.7)
Total, Awards and Grants	$ 1,116	$ 10,482	$ 31	0.3 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

		Nine Months		
			Change From Prior Year	
Total General Funds	Mar. 2003	FY 2003	$	%
Available Balance	$ 118	$ 256	$ (870)	(77.3) %
Revenues	1,756	17,317	630	3.8
Expenditures	1,750	17,449	(219)	(1.2)
Ending Balance	$ 124	$ 124	$ (21)	(14.5) %
General Revenue Fund				
Available Balance	$ 28	$ 0	$ (683)	(100.0) %
Revenues	1,502	14,785	579	4.1
Expenditures	1,499	14,754	(104)	(0.7)
Ending Balance	$ 31	$ 31	$ 0	0.0 %
Common School Special Account Fund				
Available Balance	$ 54	$ 37	$ (29)	(43.9) %
Revenues	114	1,125	(9)	(0.8)
Expenditures	113	1,107	(39)	(3.4)
Ending Balance	$ 55	$ 55	$ 1	1.9 %
Education Assistance Fund				
Available Balance	$ 24	$ 198	$ (157)	(44.2) %
Revenues	77	842	73	9.5
Expenditures	77	1,016	(65)	(6.0)
Ending Balance	$ 24	$ 24	$ (19)	(44.2) %
Common School Fund				
Available Balance	$ 11	$ 21	$ 0	0.0 %
Revenues	309	2,034	(46)	(2.2)
Expenditures	306	2,041	(43)	(2.1)
Ending Balance	$ 14	$ 14	$ (3)	(17.6) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

		Nine Months		
			Change From Prior Year	
Revenues:	Mar. 2003	FY 2003	$	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 513	$ 5,172	$ (104)	(2.0) %
Corporate	155	474	(58)	(10.9)
Total, Income Taxes	$ 668	$ 5,646	$ (162)	(2.8) %
Sales Taxes	455	4,520	(37)	(0.8)
Other Sources:				
Public Utility Taxes	98	749	(72)	(8.8)
Cigarette Taxes	33	300	0	0.0
Inheritance Tax (gross)	14	189	(65)	(25.6)
Liquor Gallonage Taxes	8	94	2	2.2
Insurance Taxes and Fees	54	193	28	17.0
Corporation Franchise Tax and Fees	16	106	(11)	(9.4)
Investment Income	4	51	(60)	(54.1)
Cook County IGT	23	243	66	37.3
Other	15	270	104	62.7
Total, Other Sources	$ 265	$ 2,195	$ (8)	(0.4) %
Total, Cash Receipts	$ 1,388	$ 12,361	$ (207)	(1.6) %
Transfers In:				
Lottery Fund	$ 44	$ 379	$ 3	0.8 %
State Gaming Fund	28	427	82	23.8
Other Funds	41	438	211	93.0
Total, Transfers In	$ 113	$ 1,244	$ 296	31.2 %
Total, State Sources	$ 1,501	$ 13,605	$ 89	0.7 %
Federal Sources:				
Cash Receipts	$ 255	$ 2,762	$ (120)	(4.2) %
Transfers In	0	24	(39)	(61.9)
Total, Federal Sources	$ 255	$ 2,786	$ (159)	(5.4) %
Total, Base Revenues	**$ 1,756**	**$ 16,391**	**$ (70)**	**(0.4) %**
Short-Term Borrowing	0	700	700	N/A
Transfer from Budget Stabilization Fund	0	226	0	0.0
Total, Revenues	$ 1,756	$ 17,317	$ 630	3.8 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

		Nine Months		
			Change From Prior Year	
Expenditures:	Mar. 2003	FY 2003	$	%
Awards and Grants:				
Public Aid	$ 317	$ 3,809	$ 132	3.6 %
Elem. & Sec. Education:				
State Board of Education	569	3,638	88	2.5
Teachers Retirement	78	698	82	13.3
Total, Elem. & Sec. Education	$ 647	$ 4,336	$ 170	4.1 %
Human Services	200	2,052	(23)	(1.1)
Higher Education	60	670	(87)	(11.5)
All Other Grants	60	898	(266)	(22.9)
Total, Awards and Grants	$ 1,284	$ 11,765	$ (74)	(0.6) %
Operations:				
Other Agencies	$ 364	$ 3,652	$ (249)	(6.4) %
Higher Education	106	1,452	(52)	(3.5)
Total, Operations	$ 470	$ 5,104	$ (301)	(5.6) %
Regular Transfers Out	$ 146	$ 1,384	$ (105)	(7.1) %
All Other	$ 2	$ 16	$ (28)	(63.6) %
Vouchers Payable Adjustment	$ (352)	$ (1,020)	$ 89	N/A
Total, Base Expenditures	**$ 1,550**	**$ 17,249**	**$ (419)**	**(2.4) %**
Transfers to Repay Short-Term Borrowing	200	200	200	N/A
Total, Expenditures	$ 1,750	$ 17,449	$ (219)	(1.2) %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

		Nine Months		
			Change From Prior Year	
	Mar. 2003	FY 2003	$	%
Personal Services:				
Regular Positions	$ 168	$ 1,756	$ (94)	(5.1) %
Other Personal Services	21	189	(9)	(4.5)
Total, Personal Services	$ 189	$ 1,945	$ (103)	(5.0) %
Contribution Retirement	41	394	14	3.7
Contribution Social Security	12	127	(4)	(3.1)
Contribution Group Insurance	58	506	41	8.8
Contractual Services	41	409	(4)	(1.0)
Travel	1	13	(5)	(27.8)
Commodities	8	72	(27)	(27.3)
Printing	1	7	0	0.0
Equipment	1	17	(8)	(32.0)
Electronic Data Processing	3	35	(2)	(5.4)
Telecommunications	4	43	1	2.4
Automotive Equipment	2	14	0	0.0
Other Operations	109	1,522	(204)	(11.8)
Total, Operations	$ 470	$ 5,104	$ (301)	(5.6) %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

		Nine Months		
			Change From Prior Year	
	Mar. 2003	FY 2003	$	%
State Board of Education:				
General State Aid	$ 260	$ 2,102	$ (55)	(2.5) %
All Other	309	1,536	143	10.3
Public Aid	317	3,809	132	3.6
Human Services	200	2,052	(23)	(1.1)
Higher Education:				
Student Assistance Commission	58	339	(36)	(9.6)
Community College Board	0	271	(16)	(5.6)
Other	2	60	(35)	(36.8)
Teacher's Retirement	78	698	82	13.3
Children and Family Services	26	440	(80)	(15.4)
Aging	21	169	(2)	(1.2)
Revenue	0	3	(82)	(96.5)
All Other	13	286	(102)	(26.3)
Total, Awards and Grants	$ 1,284	$ 11,765	$ (74)	(0.6) %

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