Fiscal Focus

Comptroller Loleta A. Didrickson **July 1998** **State of Illinois**

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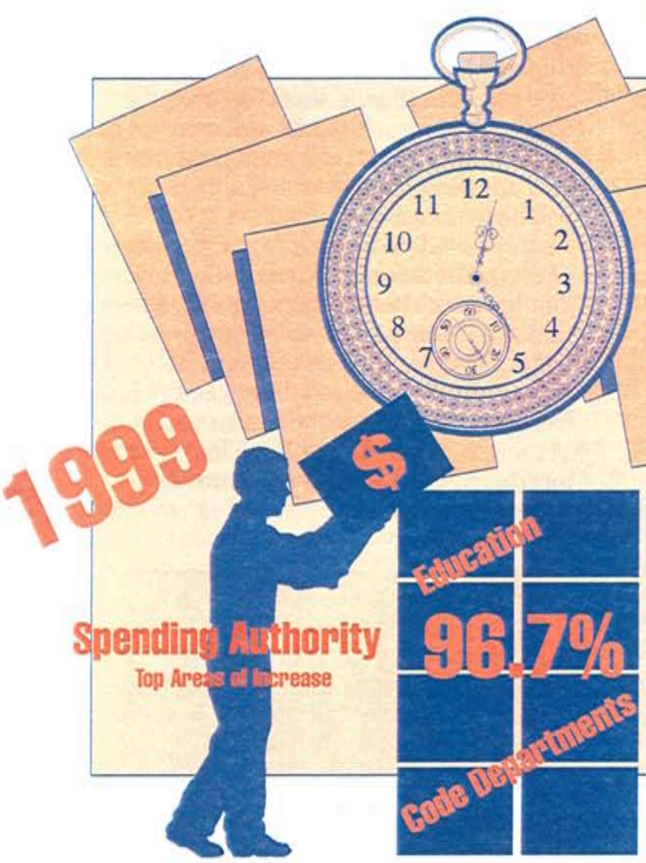
A Plan in Place - Overview of Fiscal Year 1999 Budget



Legislative consensus on the $38 billion fiscal year 1999 budget was reached on May 23rd and approved by the Governor on June 4th. Both a positive state fiscal position and the absence of wrangling over education funding allowed for the earliest budget session adjournment in memory. Highlighting the budget session was tax relief for both individuals and businesses (see *Unit Cost* page 2), expansion of the state's Circuit Breaker Program which provides cash grants to the elderly to help offset property taxes and pay for medication, and implementation of the second phase of the Kid Care Program which provides health insurance coverage for children of the working poor.

By convening a special session last December, the General Assembly addressed many of the funding concerns and inequities for public elementary and secondary education. With predetermined foundation levels of funding in place through fiscal year 2001, and hold harmless grants designed to make sure no school district received less funding than the previous fiscal year, the special session effectively removed a major stumbling block which has stalled budget negotiations over the last several years.

Budgeting decisions were also made simpler due to the solid financial footing in the state's General Funds which accounts for more than half of the state budget and acts as it's main operating fund group. Throughout the first half of the decade, lawmakers were constantly faced with scrutinizing each and every aspect of the budget

See COVER STORY, page 6

A Message To You... from Comptroller Loleta Didrickson

What a year Illinois has had — we ended fiscal year 1998 with the largest end-of-year balance in the history of our State. Thanks to an unbelievably strong economy, the General Revenue Fund closed at $1.012 billion and General Funds closed at $1.202 billion. Individual income tax receipts were up 11.5 percent at $6.847 billion.

The State's great fiscal health was certainly a boon for the General Assembly. Unit Cost *highlights some of the winners from this past session. Lawmakers increased the standard exemption for individuals from $1,000 to $2,000 by the year 2000; and, multi-state businesses that have the bulk of their assets and payroll in Illinois will receive a much-deserved tax break. Elementary and secondary education also got a big boost - an increase of 11.8 percent, or $547 million. However, legislators were also good to themselves. As the revenues rolled in, lawmakers doled out $220 million in member projects during this all-important election year (see* Centerpiece*).*

Also noteworthy from this past session is the fact that for the first time in our State's history, Truth In Budgeting was used to give taxpayers and the General Assembly a more honest view of the budget. While the General Assembly passed Truth In Budgeting during the 1997 session, another fiscal reform that would be beneficial to the State has yet to garner passage in the Illinois Senate. With a projected positive budgetary balance of $350-400 million, now more so than ever the Illinois General Assembly needs to pass Rainy Day legislation that will help our State prepare for future economic downturns. During this unprecedented period of economic growth is exactly when we should be socking a little away for future needs.

Enjoy the issue!

Loleta Didrickson

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 and in compliance with state statutes.

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Income Tax Changes

During the recently concluded legislative session, the General Assembly passed HB 2363 which raises the standard income tax exemption and changes the formula for computing tax liability for multi-state businesses operating in Illinois.

The standard exemption for individual taxpayers and their dependents will increase for the first time since the state income tax was imposed in 1969. During that period the Consumer Price Index has quadrupled, while the Illinois standard exemption has remained unchanged at $1,000.

Under the legislation, the standard exemption will increase to $1,300 for income earned during 1998, $1,650 for 1999 income, and $2,000 for 2000 income. With Illinois' 3% individual income tax rate, the savings will be $9 per deduction for 1998 income, $19.50 per deduction for 1999 income, and $30 per deduction for 2000 income. The Department of Revenue estimates that state revenues will be reduced $96 million from income earned in calendar 1998. When fully phased in, the estimated annual reduction in revenues will be $326 million.

Prior to the passage of HB 2363, the Illinois taxable income for multi-state businesses is determined using a three factor formula. The share of income attributed to Illinois is computed by multiplying total corporate income by 50% times the share of corporate sales in Illinois plus 25% times the share of corporate assets in Illinois plus 25% times the share of corporate payroll in Illinois.

The new legislation creates a three year transition period which ultimately will have the allocation of income to Illinois based on a single factor, the share of corporate sales in Illinois. Illinois will join Iowa and Nebraska as the only states that apportion income with a single sales factor. This formula change, as illustrated in the example, will reduce the tax liability for companies with a large share of their assets and payroll in Illinois, but increase the tax liability for companies with large sales but few assets or employees in Illinois.

Company A
Total Profits - $1 Million

Sales in Illinois - 25%
Assets in Illinois - 100%
Payroll in Illinois - 100%

Current Apportionment Formula
Profits Attributed to Illinois - $625,000

Illinois Tax Liability - $30,000

Revised Apportionment Formula
Profits Attributed to Illinois - $250,000

Illinois Tax Liability - $12,000

See UNIT COSTS , back page

Changing the Way the State Does Business Brings Positive Results

In announcing its recent decision to upgrade Illinois' credit rating, Moody's Investor Services cited both continued strong economic fundamentals and "improved financial results." Even in years when the credit ratings fell, the state was still recognized as having a strong underlying economy. The weak link, however, was that the financial performance of state government was not on a par with its economy. The good news for the people of Illinois is that recent changes in how the state does business have helped to get the state's fiscal house in order, and that those efforts have been recognized by the financial community.

Throughout the 1990s, Illinois has had a strong economy. The painful restructurings that the state experienced in the 1970s and 1980s positioned the state to take advantage of the growing export sector of the U.S. economy. As a result, Illinoisans have benefited from unemployment rates that have been below the national average for several years. These factors have always been a positive note in the ratings reviews that were done on the state over the last ten years.

With a strong economy a constant plus, it is the improved financial conditions that have brought about the upgrade in the state's credit rating. In their recent announcement of the upgrade (to Aa2 from Aa3), Moody's cited a number of important factors that have demonstrated improvement since fiscal year 1995:

1. the backlog of unpaid bills has been brought current;
2. social service costs (especially Medicaid) have been brought under control;
3. continued strong revenue growth; and
4. end of fiscal year 1998 General Funds balance projected at least $950 million.

From 1990 through 1995, Medicaid spending grew at an average annual rate of 17.5%. Since then, however, those costs have grown at 3.5% per year, due in part to a freeze on reimbursement rates for certain provider groups. The budget for fiscal 1999 includes some rate adjustments which would cause Medicaid spending to grow at 9.0%. Medicaid is one of the largest single components of state spending, and the area that saw some of the longest payment delays during the state's fiscal crisis. Eliminating the backlog of unpaid Medicaid bills and slowing the growth in liabilities has been a key factor in shoring up the state's financial condition.

In addition to slower growth in Medicaid claims, the state has had the benefit of continued strong growth in revenues, particularly from income taxes. Unlike the early part of the decade, when revenues were coming in below expectations, the strong state economy has fueled an unprecedented growth in revenues. The combination of reining in the growth in spending and above average revenues has allowed the state to end fiscal year 1998 with the largest General Funds balance in history—$1.2 billion. Only seven years ago, the balance in the General Funds at the end of fiscal year 1991 was $100 million, or 1/12th of this year's ending balance.

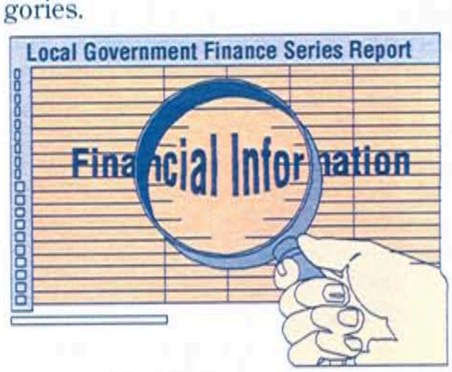
Another factor influencing Moody's decision to raise the state's credit rating was the recent enactment of the Truth in Budgeting Act. This Act, which was a major initiative of Comptroller Loleta Didrickson, is intended to keep state budgets "honest," now that the state has its fiscal house back in order. As noted by Moody's "...the state passed legislation to require the enacted budget to be balanced on a modified accrual basis, which will deter the recurrence of the practice followed in the early 1990s of deferring bills while balancing the budget on a cash basis only."

The rating agency also noted that Illinois continues to be one of the few states that does not have a Rainy Day Fund. However, this was more of a critical factor when the balances were extraordinarily low and the amount of unpaid bills was large and growing. The financial community recognizes the need to keep balances over and above normal operating balances "as a cushion against unforeseen circumstances," whether they are segregated into a Rainy Day Fund or left on-hand in the operating funds. Were Illinois to enact and adequately fund a Rainy Day Fund, then there would be less of a need to keep as large of an end of year balance. Perhaps of equal importance, by putting the money into a Rainy Day Fund, the state would reduce the temptation to spend the balance simply because it was there.

Local Governments

Financial Status of Local Governments

The State of Illinois currently has well over 7,000 units of local government and special taxing districts - the most of any state in the nation. It is the responsibility of the Office of the Comptroller to monitor and report on those governments' financial status. Earlier this year the Comptroller issued the The *Local Government Finance Series* report for fiscal years 1992-1996, pursuant to the Fiscal Responsibility Report Card Act[1]. The *Local Government Finance Series* provides an analysis of financial information submitted to the Comptroller from fiscal year 1992 through fiscal year 1996 and includes a summary of revenues, expenditures and fund balances for fiscal year 1996 data and trend analyses within each of these categories.



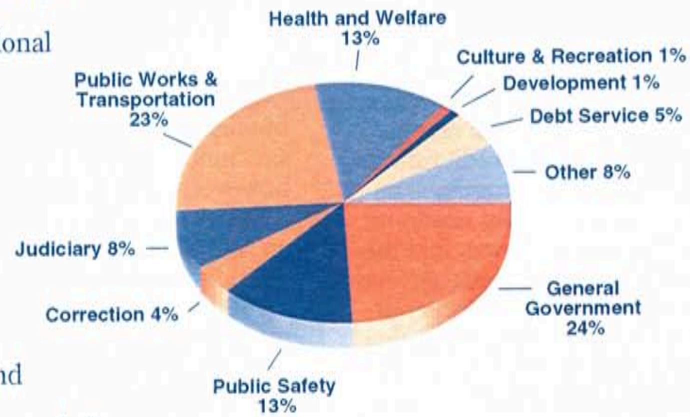
In Illinois, 1,288 municipalities and 101 counties are required to file an Annual Financial Report (AFR) with the Comptroller's office. As of this writing, 1,258 municipalities and 100 counties have submitted AFRs for fiscal year 1996.

Current law requires all cities and counties with population under 500,000 to file specific financial reports with the Comptroller's Office. However, some municipalities are delinquent in filing, those include: Alorton (under federal investigation), Aurora, Batavia, Broadwell, Bush, Eldara, Granite City, Hidalgo, Iola, Iroquois, Kaskaskia, National City, North Chicago, Papineau, Pittsburg, Ridott, Robbins, Roberts, Sandoval, Scottville, Springerton, Stoy, Strawn, and Union.

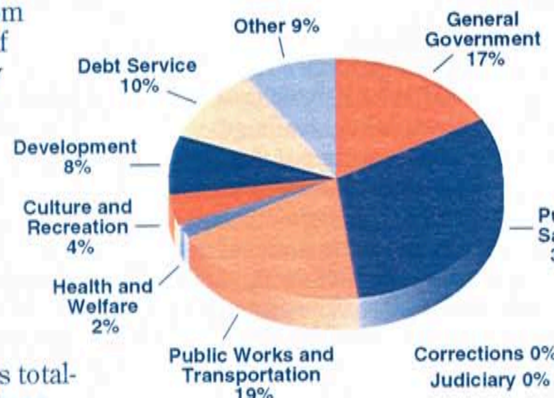
Due to the population set under statute, the City of Chicago, Cook County, Lake County, and DuPage County are exempt from the law. However, those units of government voluntarily comply with the Comptroller's Office requirements.

The City of Chicago collected \$519.7 million from the state and \$665.1 million from the federal government in fiscal year 1996. Cook County received fiscal year 1996 revenues from the state totaling \$155.3 million and federal funds totaling \$41.4 million. For the last three years the Comptroller's Office pushed legislation (HB 3473 last session) to ensure all units of governments submit financial information to the state. However opposition from the City of Chicago and Cook County kept the bill from passing.

CFY 96 County Expenditures Governmental Fund Type



MFY 96 Municipal Expenditures Governmental Fund Type



Municipalities

Of the 1,289 municipalities required to file annual financial information with the Comptroller's Office, 1,258 or 97% were in compliance with the law. It is important to note that fiscal year 1996 is the first year that the data collected allows for examination of data by fund instead of a Memorandum Total Column, which provides aggregate totals. This type of analysis allows a closer examination of the General Fund apart from Governmental Fund Types.

The largest revenue source for reporting municipalities in Municipal Fiscal Year 1996 (MFY 96) was the Property Tax with a total collection of \$986 million. However, an examination of General Fund revenues reveals the primary source of operational revenues came from Sales Tax, which

See LOCAL GOVERNMENT, page 14

STATE TAX FREEDOM DAY

Source: Tax Foundation

HOW ILLINOIS STACKS UP

"Tax Freedom Day" By State

Each year the Tax Foundation (TF), a Washington D.C.-based non-profit organization, calculates when "Tax Freedom Day" occurs each year — the date which, according to the TF, taxpayers' earnings start going into their own pocketbook instead of going into federal, state and local government coffers. Of course, to the extent that taxpayers use or rely upon public services (e.g., roads, bridges, schools, police- and fire-protection services), they have received something for their tax payments.

The table illustrates the number of days it takes taxpayers in each state to pay their federal and state/local taxes, according to the TF's calculations. This year, that date (May 10) arrived one day later than it did in 1997 due to an expanding economy, the "progressive nature" of the current tax system, and the 1990 and 1993 tax increases (which, it should be noted, were applied primarily to America's wealthier citizens). The TF also calculated a "daily tax bite" to illustrate what they believe to be the growing tax burden of Americans. They estimate that Americans will spend 2 hours and 50 minutes each work day to pay taxes, the majority of which (1 hour and 55 minutes) will go towards payment of federal taxes — two minutes longer than in 1997.

"Tax Freedom Day" varies for the states due to differing levels of affluence and differing taxation policies among the states. For example, there is a significant difference between the states of Illinois and Vermont in terms of the threshold for levying a state income tax. In Illinois, single-parent families of three earning $3,000 in 1997 were required to pay state income taxes. In Vermont, such families would not have to pay until their earnings exceeded $22,900.

State Tax Freedom Days, 1998

			Number of Days		
State	TFD/Order	Rank	Total Taxes	Federal Taxes	State/Local Taxes
Total	**10-May**		**129**	**88**	**41**
Connecticut	May 26	1	145	99	46
Wisconsin	May 17	2	136	87	49
Minnesota	May 16	3	135	88	47
New York	May 16	4	135	86	49
New Jersey	May 16	5	135	94	41
Massachusetts	May 14	6	133	92	41
Illinois	May 13	7	132	92	40
Washington	May 13	8	132	90	42
Michigan	May 13	9	132	92	40
Nevada	May 13	10	132	91	41
Utah	May 12	11	131	85	46
Rhode Island	May 12	12	131	88	43
Maine	May 11	13	130	82	48
California	May 11	14	130	87	43
Kansas	May 10	15	129	87	42
Florida	May 9	16	128	90	38
Hawaii	May 9	17	128	77	51
Georgia	May 9	18	128	87	41
Maryland	May 9	19	128	88	40
New Mexico	May 9	20	128	83	45
South Carolina	May 9	21	128	86	42
Ohio	May 8	22	127	86	41
Nebraska	May 8	23	127	86	41
Idaho	May 8	24	127	85	42
Missouri	May 8	25	127	85	42
Colorado	May 8	26	127	88	39
Vermont	May 8	27	127	84	43
Arizona	May 8	28	127	87	40
Indiana	May 8	29	127	87	40
Oregon	May 7	30	126	85	41
Mississippi	May 7	31	126	81	45
Pennsylvania	May 7	32	126	87	39
Kentucky	May 7	33	126	83	43
Texas	May 5	34	124	86	38
Virginia	May 5	35	124	87	37
Arkansas	May 5	36	124	82	42
Delaware	May 5	37	124	84	40
North Carolina	May 5	38	124	85	39
Iowa	May 3	39	122	81	41
Montana	May 3	40	122	83	39
Wyoming	May 2	41	121	93	38
West Virginia	May 1	42	120	81	39
Alabama	May 1	43	120	86	34
South Dakota	May 1	44	120	82	38
Tennessee	April 30	45	119	88	31
Louisiana	April 30	46	119	82	37
North Dakota	April 30	47	119	80	39
Oklahoma	April 28	48	117	79	38
Alaska	April 26	49	115	93	22
New Hampshire	April 25	50	114	91	23

Source: Tax Foundation

The methodology used by the TF to calculate Tax Freedom Day and the claims regarding the rapid growth of taxes are disputed by the Center for Budget and Policy Priorities (CBPP), another Washington D.C.-based non-profit organization. According to the CBPP, taxes are not rising dramatically for the average American family and the TF's calculations distort the overall tax picture for average American families. The CBPP claims that the TF's methodology is flawed in several areas, including: counting state capital gains taxes without counting the income on which the tax was levied; counting state/local government employees' pension payments as taxes but not federal employee payments; counting rent paid by private companies for government-owned space as taxes; and attributing federal estate taxes to middle-income families.

According to the CBPP: "The TF's statement that taxes absorb 38.2 percent of a median two-earner family's income includes an estimate that this median family pays 26.2 percent of income in federal taxes. . . .The respected, non-partisan Congressional Budget Office has reported that the federal tax burden on families in the middle fifth of the income distribution equaled 19.7 percent of income before the effects of the 1997 Taxpayers Relief Act are taken into account."

A Plan In Place

with an eye toward saving money as the state faced it's worst financial crisis in history. However, due to rapid economic expansion in the second half of the decade, strong revenue performance has restored fiscal health. Over the first four fiscal years of the decade, the average annual increase in base revenues (excludes short-term borrowing) to the General Funds was $562 million or 4.3%. Over the last five fiscal years, the average increase in revenues has been $1.051 billion or 6.3%.

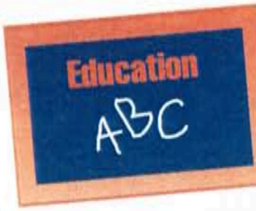
For fiscal year 1999, the level of General Funds spending authority has been set at $19.780 billion, an increase of $1.433 billion or 7.8% over fiscal year 1998 appropriations of $18.346 billion. Of the $1.433 billion increase for fiscal year 1999, $1.060 billion or 74.0% was for awards and grants with $368 million or 25.7% for operations. The $1.433 billion increase in spending authority for fiscal year 1999 represents the largest one-year dollar increase in appropriations in the history of the General Funds and accounts for 19.4% of the $7.378 billion increase since 1990. Over the past six fiscal years, General Funds spending authority is up $6.250 billion.

Education remained the top funding priority for lawmakers in fiscal year 1999 as 48.6% of increased appropriations to the General Funds were for this function of government. After increased spending authority of $579 million or 9.4% in fiscal year 1998, education appropriations increased $696 million or 10.4% in 1999. Over this two year period, the increase in education appropriations accounted for 51.2% of the total increase in the General Funds.

Code Departments, which include most of the major state agencies such as Public Aid, Human Services, Corrections, and the State Police received increased General Funds appropriations of $689 million or 6.3% accounting for 48.1% of the total increase in spending authority for fiscal year 1999. Together with Education, these two sectors of state government accounted for 96.7% of the increase in spending authority for fiscal year 1999.

Other areas of state government and their appropriation levels for fiscal year 1999 include: Judicial agencies ($271 million - up 8.1%); Legislative agencies ($59 million - up 3.3%); Elected Officials ($215 million - up 2.2%); and all other agencies ($259 million - up 9.2%).

Education



Of the $696 million increase in educational funding for fiscal year 1999, $547 million or 78.6% is for public elementary and secondary education - an increase of 11.8% over 1998.

Elementary and Secondary Education Grants (Millions)

	Fiscal Year									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Apportionment	$ 2,073	$ 2,106	$ 2,110	$ 2,121	$ 2,186	$ 2,285	$ 2,326	$ 2,378	$ 2,471	$ 2,923
Categoricals	878	898	919	871	935	1,006	1,071	1,223	1,531	1,516
Retirement	323	306	300	292	301	302	362	417	495	584
Total, Grants	$ 3,274	$ 3,310	$ 3,329	$ 3,284	$ 3,422	$ 3,593	$ 3759	$ 4,018	$ 4,497	$ 5,023

Passage of extensive funding reforms in a special session of the General Assembly was the driving factor in the significant increase in elementary and secondary appropriations. Legislation set the foundation level of per pupil funding (level which is considered to be necessary for students to receive an "adequate" education) at $4,100 for fiscal year 1998 and $4,225 for fiscal year 1999. Foundation levels were predetermined during the special session and continue to increase each year through fiscal year 2001.

Of the $547 million increase in elementary and secondary education appropriations, $526 million is for awards and grants and $21 million is for operations. Appropriations for awards and grants include apportionment (which is distributed to schools through a special equalization formula), categoricals (which are distributed based on specific program requirements), and retirement contributions. Apportionment or general state aid appropriations for fiscal year 1999 total $2.923 billion, $452 million or 18.3% more than 1998, reflecting the increased foundation level. Categorical grant spending authority declined $15 million or 1.0% from the 1998 level as $153 million in fiscal year 1998 categorical programs were unfunded for 1999. Increases to other categorical programs offset most of the decrease. Retirement contributions are up $89 million or 18.0% due to the statutory commitment made to eventually reach full actuarial funding.

Higher education appropriations of $2.219 billion from the General Funds in fiscal year 1999 represent an increase of $148 million or 7.2% over 1998. Spending authority for operations is up 6.1% or $85 million while grant spending authority increased 9.3% or $63 million. State Universities, which account for more than 57% of higher education funding, increased $68 million or 5.6%. Funding for the State Universities Retirement System (included under the Board of Higher Education in the accompanying table) increased over $20 million or 11.0%. Student Assistance Commission spending authority increased $27 million or 8.3% and Illinois Community College Board funding was up $15 million or 5.4%.

Code Departments

Of the $689 million or 6.3% increase in General Funds appropriations for Code Departments, 61.5% or $424 million is directed to the Department of Public Aid. The $424 million or 10.6% increase for the Department brings the total General Funds spending authority level to $4.430 billion for fiscal year 1999. Nearly 95% or $400 million of the growth in Public Aid appropriations is for medical assistance grants.

Base growth in general medical assistance of $125 million accounts for the largest portion of growth (29.5%). Another 24.3% or $103 million of the increase in spending authority will be used for the Kid Care Program which extends health coverage to tens of thousands of uninsured children in low-income

families. Other increases at the Department include: $70 million in Long-Term Care appropriations to fund a 3% cost of living and per diem increase; $65 million in Hospital Outpatient Reform; $18 million for rate adjustments in children's hospitals; and $19 million in administration including $14 million for a medical and data warehouse.

The second largest dollar increase among Code Departments is for the Department of Corrections. General

Funds appropriations of $1.054 billion for fiscal year 1999 are $108 million or 11.5% higher than the $946 million appropriated in 1998 including a $113 million or 12.3% increase in operations. A $63 million increase in personal services accounts for 58.3% of the overall General Funds increase for the Department. In addition, $22 million and $8 million are appropriated respectively for the new Pinckneyville and Decatur Correctional Centers. The Tamms Super-Max Correctional Center receives an additional $9 million in spending authority for fiscal year 1999 as the facility becomes fully operational.

Member initiatives (see *Centerpiece* pg. 8) were the driving force behind the significant percentage increases in General Funds spending authority for three Code Departments. The Department of Commerce and Community Affairs (up $32 million or 47.6%) along with the Department of Natural Resources (up $37 million or 34.2%) and the Department of Transportation (up $22 million or 34.8%) all received spending authority within their budgets for various community endeavors.

General Funds spending authority at the Department on Aging increased $30 million or 17.7% to $199 million for fiscal year 1999. Nearly 75.0% or $22 million of the increase at the Department was for the Homemaker category of the Alternative Care Program. State tax dollars for this program assist the elderly with personal care matters, homemaking tasks, and other basic services.

Department of Agriculture appropriations for fiscal year 1999 from the General Funds total $55 million, $9 million or 19.7% above 1998. A nearly $7 million increase in horse racing purses to

See COVER STORY, back page

General Fund Appropriations
(Millions)

	Fiscal Year 1998	Fiscal Year 1999	Increase $	Increase %
Legislative Agencie*	57.012	58.894	1.882	3.3
Judicial Agencies	250.628	270.949	20.321	8.1
Elected Officials:				
Governor	8.065	8.678	0.613	7.6
Lt. Governor	2.929	2.807	(0.112)	(4.2)
Attorney General*	33.947	35.147	1.200	3.5
Secretary of State*	101.703	102.699	0.996	1.0
Comptroller*	23.646	24.606	0.960	4.1
Treasurer*	14.284	14.268	(0.016)	(0.1)
Other State Officers and Elected Officials*	26.297	27.225	0.928	3.5
Total, Elected Officials	210.871	215.430	4.559	2.2
Code Departments:				
Aging	169.511	199.497	29.986	17.7
Agriculture	46.280	55.418	9.138	19.7
Central Management Services	539.644	558.478	18.834	3.5
Children and Family Services	935.345	897.095	(38.250)	(4.1)
Commerce and Community Affairs	68.033	100.404	32.371	47.6
Corrections	945.793	1,054.102	108.309	11.5
Human Services	3,430.496	3,450.385	19.889	0.6
Natural Resources	109.314	146.651	37.337	34.2
Public Aid	4,006.177	4,429.950	423.773	10.6
Public Health	98.602	103.694	5.092	5.2
Revenue	224.088	225.966	1.878	0.8
State Police	184.446	200.672	16.226	8.8
Transportation	62.813	84.658	21.845	34.8
Veterans Affairs	30.050	31.245	1.195	4.0
All Other Code Departments	34.416	36.227	1.811	5.3
Total, Code Departments	10,885.008	11,574.442	689.434	6.3
Education:				
Elementary & Secondary Ed. (Incl. TRS.)	4,634.307	5,181.590	547.283	11.8
Higher Education:				
Board of Higher Education (Incl. SURS)	248.769	286.259	37.490	15.1
State Universities	1,205.689	1,273.541	67.852	5.6
Illinois Community College Board	273.579	288.256	14.677	5.4
Student Assistance Commission	328.779	356.093	27.314	8.3
All Other Higher Education	14.327	15.211	0.884	6.2
Total, Higher Education	2,071.143	2,219.360	148.217	7.2
Total, Education	6,705.450	7,400.950	695.500	10.4
Other Agencies:				
Capital Development Board	62.187	63.103	0.916	1.5
Environmental Protection Agency	36.058	41.587	5.529	15.3
All Other	138.955	154.262	15.307	11.0
Total, Other Agencies	237.200	258.952	21.752	9.2
TOTAL	18,346.169	19,779.617	1,433.448	7.8

* The growth from FY 1998 to FY 1999 is impacted by FY 1998 budgetary adjustments to reflect increases in employer pension contributions and whether those increases were to be funded from General Funds or other sources.

General Funds Appropriations for Operations and Grants
FY 1990, FY 1997, FY 1998 and FY 1999
(Millions)

Operations	FY 1990	FY 1997	Level Change	% Change	FY 1998	Level Change	% Change	FY 1999	Level Change	% Change
Higher Education	$ 1,113	$ 1,308	$ 195	17.5	$ 1,393	$ 85	6.5	$ 1,478	$ 85	6.1
Corrections	486	841	355	73.0	919	78	9.3	1,032	113	12.3
Human Services	0	0	0	0.0	969	969	N/A	1,005	36	3.7
Central Management Services	274	476	202	73.7	517	41	8.6	537	20	3.9
Children and Family Services	92	257	165	179.3	265	8	3.1	277	12	4.5
Supreme Court	129	182	53	41.1	177	(5)	(2.7)	187	10	5.6
State Police	134	174	40	29.9	183	9	5.2	200	17	9.3
Public Aid	400	459	59	14.8	109	(350)	(76.3)	133	24	22.0
Other	1,190	1,461	271	22.8	862	(599)	(41.0)	913	51	5.9
Total Operations	$ 3,818	$ 5,158	$ 1,340	35.1	$ 5,394	$ 236	4.6	$ 5,762	$ 368	6.8
Grants										
Elementary & Secondary Education										
State Board of Education	$ 3,017	$ 3,663	$ 646	21.4	$ 4,067	$ 404	11.0	$ 4,439	$ 372	9.1
Teachers Retirement System*	257	355	98	38.1	430	75	21.1	584	154	35.8
Public Aid Total	3,411	4,883	1,472	43.2	3,897	(986)	(20.2)	4,297	400	10.3
Public Aid (Medical)	2,325	3,775	1,450	62.4	3,897	122	3.2	4,297	400	10.3
Human Services	0	0	0	0.0	2,460	2,460	N/A	2,443	(17)	(0.7)
Higher Education	448	641	193	43.1	675	34	5.3	738	63	9.3
Children and Family Services	234	697	463	197.9	671	(26)	(3.7)	620	(51)	(7.6)
Other	1,167	1,779	612	52.4	656	(1,123)	(63.1)	795	139	21.2
Total Grants	$ 8,534	$ 12,018	$ 3,484	40.8	$ 12,856	$ 838	7.0	$ 13,916	$ 1,060	8.2
Total Appropriations	$ 12,410	$ 17,289	$ 4,879	39.3	$ 18,346	$ 1,057	6.1	$ 19,780	$ 1434	7.8

*FY 1990 includes a $234 million appropriation to the State Board of Education.

CENTERPIECE

General Assembly Goes Hog Wild

The maxim "all politics is local" is never so true as during the creation of the state's annual budget. Legislators who have spent months grappling with "big picture" spending decisions shift their focus to small projects that will help the voters back home. The distribution of member projects is a time honored political function that takes place at both the state and federal level. Although these projects (referred to as member initiatives or member projects in Illinois state government) constitute only a fraction of the budget, the distribution of and amount spent on member initiatives can serve as a barometer of the state's overall health and political future.

A review of recent Illinois history shows that during the cash-strapped early 1990s, very little money was available to fund member projects. Legislators and the Governor had their hands full dealing with budget shortfalls. As a result, little time — and cash — went into member initiatives. The funding for member projects grew in the mid-1990s when Illinois' economy began to recover, and quickly became a tool used by both political parties to foster good will among their constituents. With Illinois experiencing unprecedented economic growth, fiscal year 1999 will herald the largest member initiative budget in recent history.

Usually the final slice of the budget pie, decided in the annual budget process, a number of factors contribute to the amount and distribution of member initiatives. Obviously, the state's overall fiscal health is the deciding factor in the amount spent on member projects. Competing state needs, however, will also determine how much can be spent on projects that do not benefit the entire populace. One such issue was education funding reform. Although the state's economy steadily improved in the mid-1990s, critics could still point to the lack of an education funding solution in critiquing the budget.

The reform package passed by the legislature in late 1997 effectively removed education funding from the table. With education funding out of the mix, few spending issues emerged during the 1998 legislative session to compete with member projects. Two issues receiving discussion were an increase in the pension formula used for the Teachers' Retirement System and Chicago Teachers' Pension Fund, and a cost of living adjustment for homecare providers. Both were resolved in the final budget package to the satisfaction of their proponents and the administration, clearing the way for a relatively "guilt free" member initiative budget.

As presented to the members of the General Assembly, the fiscal year 1999 budget contains approximately $180 million in member initiatives paid for out of the General Revenue Fund (GRF). The actual amount attributed to member initiatives is higher, anywhere from $220 million when spending from the Road Fund and other funds is included. But it is important to remember that the addition of member initiatives always represents a change from the Governor's budget proposal. This year, the legislature agreed to the largest member initiative budget in recent history.

So where, exactly, does the money for member initiatives come from? Representatives of the General Assembly point to increased revenue estimates, a lowered end of year balance, and strategic cuts in the Governor's budget plan in explaining $200 million plus in additional projects. Before the spring legislative session had ended, the Governor's Bureau of the Budget announced increased revenue estimates of approximately $250 million. The projected fiscal year 1998 year end balance also was adjusted from $750 million (the number used in the Governor's budget proposal) to $700 million. This effectively freed up $50 million in spendable funds that could be used for member projects.

Even with additional revenues, some cuts were needed to fit member initiative spending into the overall budget package. According to General Assembly staff, the majority of adjustments were made in the area of human services. Spending on certain child care programs administered by the Department of Human Services (DHS) was reduced by $24 million. Due to lower than anticipated case

load, another $30 million was cut from the Temporary Assistance for Needy Families (TANF) program within the DHS budget. The legislature also decided to lengthen the Medicaid payment cycle from 22 to 24 days, resulting in freeing up of $175 million from that program.

Legislative budgeteers make a point to explain that reductions made to the budget will have no impact on the level of services provided by the state, and certainly no negative impact on any population. They are also quick to emphasize that member projects are one-time expenditures, and as such are not included in the state's budget base. While that statement is generally accurate, some member initiatives inspire the proposal of related projects in subsequent budget years. Nevertheless, the fiscal year 1999 member initiative budget reflects a healthy economy, and has not displaced essential state spending needs.

Less obvious than the size of the member initiative budget is the way in which that spending is used for political purposes. Legislative leaders started budget talks with an agreement to split member initiative spending down the middle, with each political party receiving 50% of the total amount. Each party would have $90 million in GRF spending, $10 million in Road Fund projects, and $10 million in projects paid for out of the Capital Development Fund to divvy up. It could then be assumed that each party would divide their half equally between the House and Senate caucuses.

This was true of House and Senate Democrats. The same cannot be said, however, for their Republican counterparts. Senate Republicans, who hold the majority in that chamber, claimed 60% of funds available for Republicans, leaving their House colleagues with only 40% to spend on their members. Senate Republicans explain that the division of GRF add on funding allotted to Republicans was closer to a 51% - 49% split. Never the less, the division of funding among Republicans accurately reflects the political strength of each caucus.

Member initiative spending also reflects the importance of individual legislators within their caucus, often revealing who needs the most help in retaining their seat. It is not uncommon for districts held by vulnerable incumbents to receive millions in end-of-session add ons. Du Page County, home of both Republican legislative leaders, is a perennial winner in the budget game. For fiscal year 1999, DuPage residents will enjoy $30 million-plus in member initiatives. This amount includes a grant to the Elmhurst YMCA for a new indoor ice facility, $1.2 million for the York Commons Pool Project, and $10 million for Tri-County Park.

The Chicago South Suburbs, considered a make-or-break battleground by both chambers, saw unprecedented member initiative spending with 150 projects totaling approximately $27 million. South Holland, Olympia Fields, South Chicago Heights, and Steger, among others, received grants for new police vehicles through the Department of Commerce and Community Affairs (DCCA). The region also received a bounty of funds for libraries, park districts, and anti-drug DARE programs.

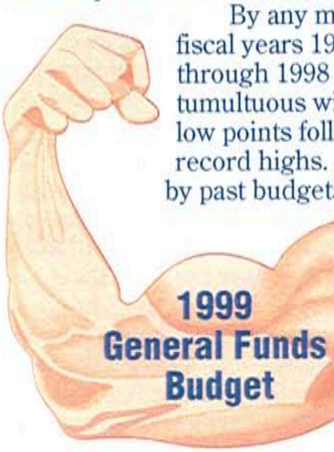
In addition to the Chicagoland winners, selected downstate districts received generous amounts of member initiative spending, including a hotly contested open Senate seat and the home district of a legislative appropriations chairman. Three lawmakers who represent the area in and around Springfield brought home nearly $8 million in add on projects. Member spending often plays a larger role in downstate races, where less costly projects can still receive a great deal of media coverage in smaller news outlets. Member initiatives can provide badly needed funding for communities with smaller tax bases, and allow political leaders to get more bang for their bucks.

Member projects are undoubtedly a windfall for the communities that benefit from them. And many provide funding for essential services such as water towers, sewer repairs, and emergency broadcast systems. A few projects stand out each year, however, for their non-essential nature. For example, Gresham Elementary School in Chicago will receive a $25,000 grant from the Illinois Arts Council for a ceramics arts class. The College of DuPage will received $100,000 to study vermicomposting (composting using earthworms). And in an apparent attempt to make history, the City of Belleville will receive a $125,000 grant from DCCA for the research and creation of a historic site in the Belleville area. Legislative staff later explained that the project will center around an existing structure in Belleville.

Focus on Revenue

What a difference a few years can make. Not long ago, federal, state, and local government officials were wrestling with budget shortfalls resulting from slowly growing (or declining) revenues and spiraling costs, especially for medical assistance.

Across the nation, governments are now generally flush with cash. Some have planned it that way. Others are awash in good fortune because they have consistently underestimated the positive impact of the economy for several years. In Illinois, a combination of spending controls and strong economic growth have produced six consecutive years of budgetary improvement and have placed the state's General Funds budget in its strongest financial position in memory.



By any measure, fiscal years 1991 through 1998 were tumultuous with record low points followed by record highs. Fueled by past budgetary practices, economic recession, and exploding medical costs, several dubious records were set over the period. These include:

- lowest single day available balance;
- lowest end-of-month available balance;
- lowest end-of-year available balance;
- highest level of unpaid bills on hand;
- highest level of lapse period spending;
- highest level of deferred bills;
- largest budgetary deficit;
- largest GAAP deficit; and
- five consecutive years of short-term borrowing for cash flow purposes.

Spurred by economic growth and improved budgetary control, the long climb back to fiscal health has also included several noteworthy records established from fiscal year 1995 through 1998. These include:

- first, third, and fourth highest levels of annual revenue growth;
- largest one-year improvement in the budgetary deficit;
- largest one-year improvement in the GAAP deficit;
- largest drop in deferred bills;
- highest end-of-month available balance;
- highest end-of-year available balance;
- elimination of unpaid bills;
- thirteen consecutive months of record end-of-month balances when compared to prior years; and
- by the time that the books are closed on fiscal year 1998 at the end of August, Illinois will record its highest budgetary balance on record.

The negative and positive revenue impacts of the economy are clearly evident in Illinois. The seeds of the state's extended cash shortage were planted with the fiscal year 1990 budget — the first of three consecutive years where actual revenues fell far short of expectations at the time that the budgets were passed. It is important to note that revenues did not decline over this period, but simply fell short of estimates. From 1990 through 1992, actual revenue growth of $1.899 billion fell $878 million short of the $2.777 billion estimated. As the economic downturn that started in fiscal year 1991 stretched into 1992, the budget-makers nightmare came true. That year, General Funds revenue growth fell $500 million below expectations, even with the acceleration of sales tax collections and other revenue enhancement measures.

General Funds Base Revenue Growth
Estimated vs. Actual
(millions of dollars)

Fiscal Year	Estimated Revenue	Actual Revenue	Estimated Growth	Actual Growth	Diff.
1989		12,133			
1990	13,009	12,841	876	708	(168)
1991	13,471	13,261	630	420	(210)
1992	14,532	14,032	1,271	771	(500)
1993	14,523	14,750	491	718	227
1994	15,410	15,587	660	837	177
1995	16,622	17,002	1,035	1,415	380
1996	17,713	17,936	711	934	223
1997	18,660	18,854	724	918	194
1998	19,504	19,984	650	1,130	480
1999	21,384	?	1,400	?	?

Estimates reflect the first estimates for the fiscal year released by the Bureau of the Budget following enactment of the new year's budget.

Economic growth finally took hold toward the end of fiscal year 1992, and over the next two years, "base" revenue growth outpaced estimates by $404 million. In fiscal year 1995, the strong economy produced a phenomenal $1.415 billion revenue increase — the largest increase on record and $380 million more than originally expected. This dramatic reversal of fortune provided the extra revenue boost necessary to begin filling the state's fiscal hole.

That process took two more years. After higher-than-expected revenue growth in 1996 and 1997, the state's General Funds budgetary balance turned positive at the end of fiscal year 1997 for the first time since 1989. Good fortune continued through fiscal year 1998 producing revenue growth of $1.130 billion — the third largest increase on record and $480 million more than estimated when the year began. However, $80 million of the new revenue came from the cigarette and messages tax increases passed in December as part of the education funding package.

The Bureau of the Budget is currently expecting $21.384 billion in General Funds revenues for fiscal year 1999. If this estimate holds up, 1999 will provide an increase of $1.400 billion next year, thus surpassing 1984 as the second largest increase in "base" revenue on record.

Focus on Spending

Fiscal Year 1998 Supplemental Appropriations

The state budget is a forecast of revenues and expenditures for the upcoming fiscal year, with work on the budget starting several months before the fiscal year begins. How can this be accurate, one may ask? If one expects precision to the dollar, for the most part, it is not. Unforeseen circumstances, such as, an underestimate of spending demands or a new legislative initiative, may require funding after the fiscal year has begun.

A supplemental appropriation bill allows the government to pass an increase, decrease, or reallocation of the appropriations from that fiscal year's budget, as needs change and estimates are realized. In other words, the supplemental appropriation bill allows the government to adjust appropriations during the fiscal year and revise the budget.

For fiscal year 1998, supplemental appropriation bills had the net impact of increasing General Funds appropriations by $226.7 million, the largest increase in the past five years. A supplemental appropriation of $134.1 million was passed in December, while the remaining $92.6 million was passed this spring. The December increase was primarily due to a special legislative session which passed extensive educational reform measures and impacted funding. Of the $226.7 million in supplemental appropriations for fiscal year 1998, 52.2% was for education.

Supplemental Appropriations By Agency ($ in millions)

Agency	1994	1995	Fiscal Year 1996	1997	1998
State Board of Education	$ 0.1	$ 0.4			$ 118.4
Central Management Services			$ 5.0	$ 0.6	25.0
Public Aid		63.0	47.0	(5.2)	20.3
Health & Human Services					13.8
Children and Family Services		40.0	25.0	12.0	13.1
Aging		2.6	0.1	4.9	9.6
Emergency Management	8.8	2.5	1.6	3.8	5.7
Court of Claims	3.0			6.2	3.8
Environmental Protection Agency			11.0	0.1	3.5
Commerce and Community Affairs		1.4			2.5
Natural Resources				0.4	2.3
Public Health				12.3	0.7
Mental Health			37.0		
State Police	14.8		13.1		
Corrections	1.1		6.0		
Transportation	0.3		2.5	39.8	
Capital Development Board			15.4	19.2	(0.7)
All Other	0.1	10.7	0.7	1.9	8.7
Total, Supplemental Appropriations	$ 28.2	$ 120.6	$ 164.4	$ 96.0	$ 226.7

Therefore, the largest increase in General Funds supplemental appropriations was to the State Board of Education. The State Board received an increase in appropriations of $118.4 million, with $114.0 million from the Common School Fund and $4.4 million from the General Revenue Fund. Common School Fund supplementals were for an increase in general apportionment ($40.4 million), an increase in supplementary state aid grants ($65.0 million), a decrease in supplementary payments to school districts ($1.4 million), and a new appropriation for low income grants ($10.0 million). While the $4.4 million increase in General Revenue Fund appropriations was from changes to numerous appropriation lines, a new appropriation of $1.0 million was for costs associated with Reading Improvement Programs.

Supplemental appropriations from the General Revenue Fund to the

Department of Central Management Services totaled $25.0 million. While various operational appropriation line items were increased, the largest increases were for group insurance ($10.0 million), payment of workers' compensation claims and associated contractual costs ($5.5 million) and an $8.0 million transfer to the Statistical Services Revolving Fund for payments on behalf of other agencies related to year 2000 compliance as determined by the Department.

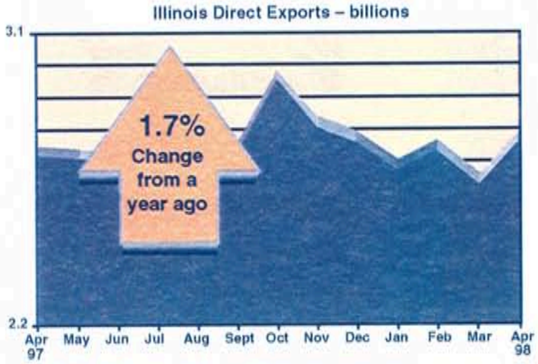
Public Aid supplemental appropriations of $20.3 million increased the grant lines for medical assistance payments.

Other agencies which received sizable increases include:

- Department of Health and Human Services ($13.8 million with changes to numerous appropriation lines);
- Department of Children and Family Services ($13.1 million for foster care, institution and group home care, and adoption services);
- Department on Aging ($9.6 million for community care program home maker and senior companion services);
- Illinois Emergency Management Agency ($5.7 million for disaster relief);
- Court of Claims ($3.8 million for payment of claims against the state);
- Environmental Protection Agency ($3.5 million for participation in the Great Lakes Protection Fund).

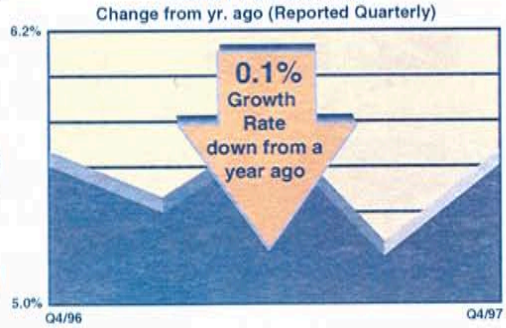
The supplemental appropriation bill provides flexibility to the state budget process since fiscal conditions and the needs of citizens can change from those forecast in advance of an entire fiscal year.

Illinois Direct Exports – billions

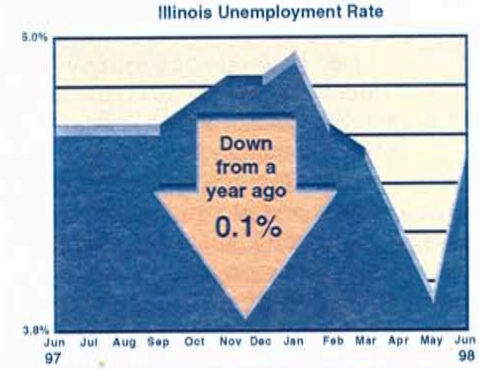


The Illinois unemployment rate was 4.5% in June. This was 0.1% below its year earlier level, 0.6% above the 3.9% May rate (which was the first reported rate below 4.0% since 1974), and identical to the June national unemployment rate. The Illinois Unemployment rate has been below 5% for seventeen consecutive months. Other indicators setting records include new claims for unemployment insurance which have been below their prior year level for eleven consecutive months and the Chicago Purchasing Managers Index (52.9 in June) which has been above the 50 level that indicates more reports of increasing economic activity than decreasing activity for the 27th consecutive month.

Illinois Personal Income
Change from yr. ago (Reported Quarterly)

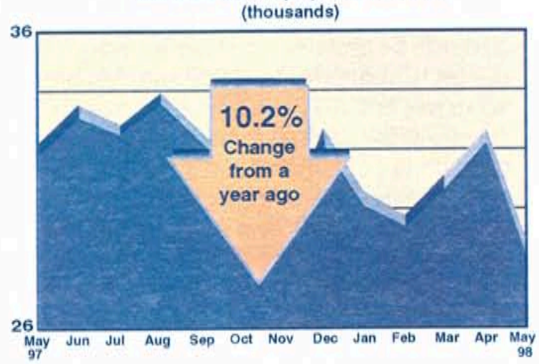


Illinois Unemployment Rate

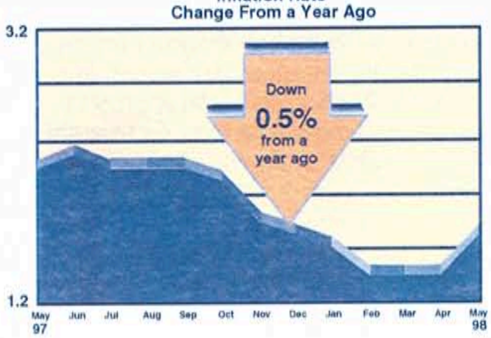


Chicago Purchasing Managers Index

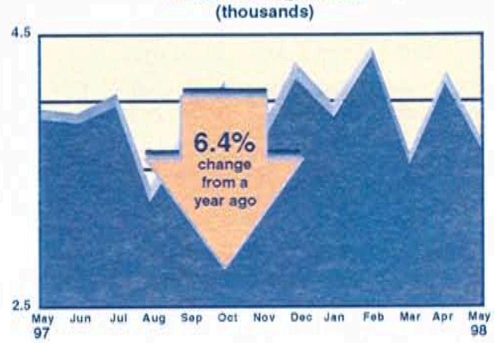
New Claims Unemployment Insurance
(thousands)



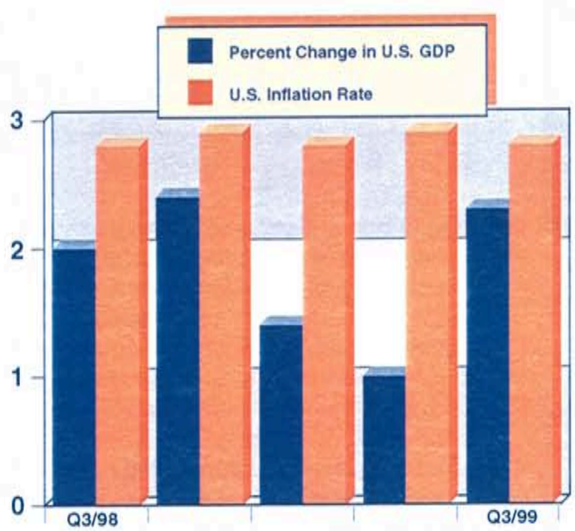
Inflation Rate
Change From a Year Ago



Illinois Housing Permits
(thousands)

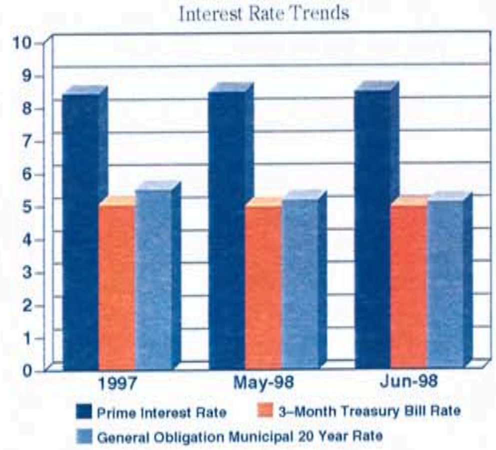


Average Hours Worked Illinois Manufacturing



The latest DRI/McGraw-Hill economic forecast expects a slowdown in the growth rate for the U.S. economy during the first part of 1999. The growth rate for the U.S. economy is forecast to decline from 2.0% and 2.4% rates during the final two quarters of 1998 to 1.4% and 1.0% rates during the first half of 1999. Slower economic growth and competition from lower priced Asian goods will help keep inflation under control as the inflation rate is forecast to remain below 3% throughout calendar 1998 and 1999.

Interest Rate Trends



SOURCES:

Illinois Department of Employment Security:
Hours Worked in Manufacturing, Unemployment Insurance Claims

U.S. Census Bureau:
Direct Exports, Housing Permits

U.S. Bureau of Labor Statistics:
Unemployment Rates, Consumer Price Index

U.S. Bureau of Economic Analysis:
Personal Income

Purchasing Managers Association of Chicago:
Purchasing Managers Index

DRI/McGraw-Hill:
Economic Forecasts

Federal Reserve System:
Interest Rates

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

General Funds Balance Tops $1.2 Billion to End FY 1998!

Fiscal year 1998 closed with the highest General Revenue Fund ($1.012 billion) and highest General Funds ($1.202 billion) end-of-year balances in history. Each month of fiscal year 1998 set records for the highest end-of-month General Funds balance when compared to the same month in previous fiscal years. In addition, June marked the thirteenth consecutive record month. Compared to last June, the balance in the General Funds was up $396 million or 49.1%, with the General Revenue Fund up $351 million and the cumulative balances in the school funds increased $45 million.

When the books are closed on fiscal year 1998 at the end of August, Illinois will record its second consecutive balanced General Funds budget. The Bureau of the Budget estimates 1998 lapse period spending of $850 million — well below the $1.202 billion end-of-year balance. If this estimate holds up, fiscal year 1998 will end with a positive budgetary balance of $352 million — the highest on record. The previous record was $290 million set in fiscal year 1974. In fact, as long as lapse period spending does not exceed $911 million, the General Funds budgetary balance will record an historical high.

General Funds Revenues - Up 6.0% Over FY1997

For fiscal year 1998, General Funds revenues totaled $19.984 billion, $1.130 billion or 6.0% higher than last year. The $1.130 billion growth in revenues is the third highest ever for the General Funds. Over the last four fiscal years, revenues have grown by $4.398 billion, leading to the record balances established throughout fiscal year 1998. For the month of June, revenues increased $73 million or 4.3%. Individual income tax receipts continued their phenomenal growth for the year as June receipts increased by $63 million or 11.0% while sales taxes were up $28 million or 6.3%. Federal source revenues declined $26 million or 10.5% from the prior year.

For the year, individual income tax receipts of $6.847 billion are up $708 million or 11.5%, while corporate income taxes of $1.136 billion are $51 million or 4.7% higher than last year. Sales taxes for the fiscal year total $5.274 billion, up $282 million or 5.6%. Despite declining by $239 million cumulatively in the last four months of the fiscal year, total federal revenues of $3.324 billion are still $55 million or 1.7% ahead of last year. These four major sources of revenue to the General Funds are up an aggregate $1.096 billion or 7.1% for the year. Individual income taxes alone accounted for 64.6% of the increase in the four major sources and 62.7% of the total increase in General Funds revenues for fiscal year 1998.

All other sources of revenue are up $34 million or 1%. Cigarette and public utility tax receipts are up $46 million and $39 million, respectively, with all of the increase in cigarette receipts due to a tax rate and allocation increase while a portion of the public utility tax increase is due to a rate increase. Both inheritance tax receipts and investment income are up in excess of 26% this year with record high General Funds balances enabling the growth in investment income. Offsetting these increases is a decline of $99 million in Cook County Intergovernmental transfers (due to the timing of last year's deposits), decreases in Lottery and Riverboat Gambling transfers (down $30 million and $15 million respectively), and insurance taxes and fees (down $55 million).

General Funds Spending Up 6.0% Through Twelve Months

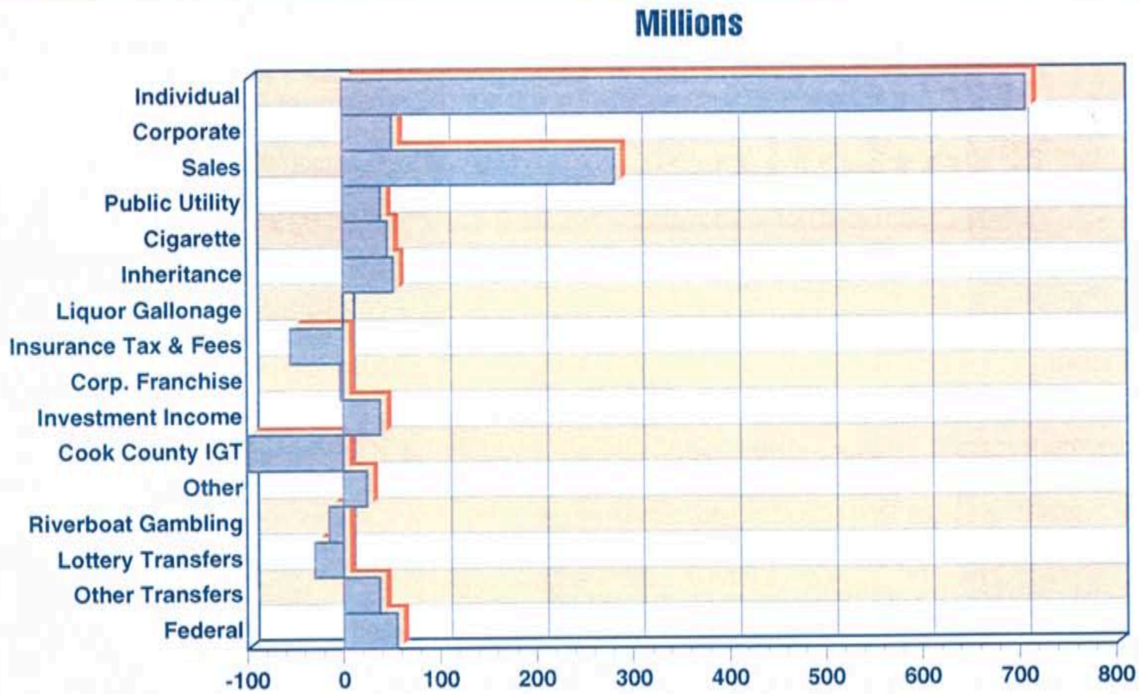
During fiscal year 1998, General Funds cash expenditures totaled $19.588 billion, $1.114 billion or 6.0% higher than last year. For the year, total revenues exceed total spending (on a cash basis) by $396 million resulting in an increase in the available balance from $806 million at the beginning of the year to $1.202 billion at the end of June.

Compared to last fiscal year, total grant spending from the General Funds has increased $894 million or 7.7%. The newly formed Department of Human Services, which consolidated all or parts of six different agencies, recorded grant spending of $2.103 billion for the year. This explains the decrease of $749 million in grant spending by the Department of Public Aid as a significant portion of this Department was consolidated into Human Services. Also reflective of the consolidation is the $1.061 billion decline in all other grants as the Departments of Mental Health and Developmental Disabilities, Alcoholism and Substance Abuse, and Rehabilitation Services were merged in whole in Human Services.

Education grant spending is up an aggregate $601 million for fiscal year 1998. State Board of Education grants for elementary and secondary education are up $483 million or 13.3% due to significantly increased appropriations (up $403 million) and the $104 million advanced school aid payment which was moved from July to June. Higher education grants have increased by $41 million or 6.5% with appropriations up $34 million. Grants for teacher's retirement contributions have grown $77 million or 21.8% over last year with appropriations up $75 million.

Fiscal experts across the state all seem to agree that the state's financial position is good with a positive outlook to the future. With a fiscal year ending balance of $1.202 billion, lapse period spending estimated at $850 million, and a projected record $352 million budgetary balance, the numbers support this claim.

A robust economy has allowed for an amazing fiscal turnaround from the early 1990's when the state faced it's worst financial crisis in history. In just 5 years, the state's General Funds have gone from more than $900 million in unpaid bills due to a lack of cash to no unpaid bills and cash balances in excess of one billion dollars - a more than two billion dollar turnaround.



Local Government

continued from page 4

totaled $910 million compared to the $459 million collected from the Property Tax. Fifty-three percent of the Property Tax collected was deposited into restricted funds, while only 7% of Sales Tax was deposited into such funds. This may reflect the desire of taxpayers to more closely monitor the property taxes they pay to municipal governments. The fastest growing revenue sources appear to be the Sales Tax and Public Utility Taxes. Intergovernmental funds from the state and federal government have remained relatively flat.

The largest expenditure by program in MFY 1996 was Public Safety with expenditures reaching $1.297 billion, followed by Public Works and Transportation at $797 million and General Government at $732 million. Data reported over the past five years indicates that municipalities have had little growth in General Government expenditures, and a decline in Culture and Recreation expenditures. The fastest growing expenditure category continues to be Debt Service while Public Safety expenditures have experienced slow steady growth over the last five years.

The operations deficit for total funds (Memorandum Column) has decreased significantly over the last five years, although municipal governments are still spending 10.7% more funds than are collected. However, the new data collection methodology allows an examination of funds which indicates the entire deficit can be attributed to the Debt Service / Capital Fund, which is to be expected. An examination of General Funds indicates that municipal governments are collecting 10% more revenues than the governments are expending.

Counties

Of the 101 counties required to file annual financial information with the State Comptroller's Office, 100 or 99% were in compliance with the law.

The largest revenue source for reporting counties in County Fiscal Year 96 (CFY 1996) was the Property Tax with a total of $601.5 million collected accounting for 30.6% of total revenue. The second largest revenue source collected was Charges For Services with $233.8 million or 11.9% of total revenues. The third largest source of revenue was the State and Local Sales Tax. The Sales Tax accounted for $177.1 million or 9.3% of all revenues collected. The fastest growing revenue categories were Charges For Services and the Property Tax.

The largest expenditure by program in CFY 1996 was General Government, totaling $453.5 million or 24% of expenditures. Almost equal to General Government was expenditures on Public Works and Transportation which totaled $443.4 million or 23% of expenditures. The third largest expenditure was for Public Health which totaled $257.9 or 13.21% of total expenditures. The fastest growing expenditure categories were Public Works and Transportation followed by Debt Service.

A more detailed analysis of municipal and county finances is available on the Comptroller's website at http://www.comptroller.state.il.us. The information is also available on disk from the Local Government Division.

[1] 35 ILCS 200/30-30 and 200/30-31

GENERAL FUNDS TRANSACTIONS
($ In Millions)

	June 1997	June 1998	Change	Twelve Months FY 1997	Twelve Months FY 1998	Change Amount	Change Percent
AVAILABLE BALANCE, BEGINNING	$ 547	$ 1,216	$ 669	$ 426	$ 806	$ 380	89.2 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 575	$ 638	$ 63	$ 6,139	$ 6,847	$ 708	11.5 %
Corporate	166	169	3	1,085	1,136	51	4.7
Total, Income Taxes	741	807	66	7,224	7,983	759	10.5
Sales Taxes	433	471	28	4,992	5,274	282	5.6
Other Sources:							
Public Utility Taxes	59	75	16	873	912	39	4.5
Cigarette Taxes.	25	30	5	300	346	46	15.3
Inheritance Tax (gross)	14	16	2	199	251	52	26.1
Liquor Gallonage Taxes	5	5	...	57	57	...	...
Insurance Tax and Fees	19	3	-16	146	91	-55	-37.7
Corporation Franchise Tax and Fees	13	10	-3	121	118	-3	-2.5
Investment Income	11	18	7	144	182	38	26.4
Cook County IGT	...	...	...	251	152	-99	-39.4
Other	19	19	...	194	218	24	12.4
Total, Other Sources	165	176	11	2,285	2,327	42	1.8
Total, Cash Receipts	$ 1,349	$ 1,454	$ 105	$ 14,501	$ 15,584	$ 1,083	7.5 %
Transfers In:							
Lottery Fund	$ 69	$ 72	$ 3	$ 590	$ 560	$ -30	-5.1 %
State Gaming Fund	14	18	4	185	170	-15	-8.1
Protest Fund	...	...	...	4	8	4	100.0
Other Funds	31	18	-13	305	338	33	10.8
Total, Transfers In	$ 114	$ 108	$ -6	$ 1,084	$ 1,076	$ -8	-0.7 %
Total, State Sources	$ 1,463	$ 1,562	$ 99	$ 15,585	$ 16,660	$ 1,075	6.9 %
Federal Sources:							
Cash Receipts	$ 243	$ 217	$ -26	$ 3,208	$ 3,256	$ 48	1.5 %
Transfers In	4	4	...	61	68	7	11.5
Total, Federal Sources	$ 247	$ 221	$ -26	$ 3,269	$ 3,324	$ 55	1.7 %
Total, Revenues	$ 1,710	$ 1,783	$ 73	$ 18,854	$ 19,984	$ 1,130	6.0 %
Expenditures:							
Awards and Grants:							
State Board of Education	$ 360	$ 523	$ 163	$ 3,633	$ 4,116	$ 483	13.3 %
Public Aid	380	342	-38	4,685	3,936	-749	-16.0
Human Services	...	185	185	...	2,103	2,103	...
Teachers Retirement	29	36	7	353	430	77	21.8
Higher Education	22	40	18	635	676	41	6.5
All Other Grants	141	93	-48	2,348	1,287	-1,061	-45.2
Total, Awards and Grants	932	1,219	287	11,654	12,548	894	7.7
Operations:							
Other Agencies	334	352	18	3,803	3,892	89	2.3
Higher Education	38	72	34	1,323	1,378	55	4.2
Total, Operations	372	424	52	5,126	5,270	144	2.8
Transfers Out	142	154	12	1,666	1,768	102	6.1
All Other (Includes Prior Year Adjustments)	5	5	...	28	34	6	21.4
Total, Expenditures	$ 1,451	$ 1,802	$ 351	$ 18,474	$ 19,620	$ 1,146	6.2 %
Adjustment for Vouchers Payable	...	-5	-5	...	-32	-32	...
Total, Cash Expenditures	1,451	1,797	346	18,474	19,588	1,114	6.0
AVAILABLE CASH BALANCE, ENDING	$ 806	$ 1,202	$ 396	$ 806	$ 1,202	$ 396	49.1 %

Unit Costs continued from page 2

Company B
Total Profits - $1 Million

Sales in Illinois - 50%
Assets in Illinois - 10%
Payroll in Illinois - 10%

Current Apportionment Formula
Profits Attributed to Illinois - $300,000

Illinois Tax Liability - $14,400

Revised Apportionment Formula
Profits Attributed to Illinois - $500,000

Illinois Tax Liability - $24,000

According to information prepared by the Department of Revenue during the legislative debate on this issue, the change in the allocation formula will reduce state revenues by $63 million when fully implemented. Local governments will experience an additional $32 million revenue reduction through its impact on replacement income tax receipts into the Personal Property Tax Replacement Fund.

However proponents of the change, citing a study by the University of Chicago, say that the economic activity this change will promote could generate millions of dollars in additional tax revenues for the state.

From an evaluation of 1995 tax year returns, the Department found that 7,014 corporations would experience state and local tax reductions of $217 million which would be partially offset by 7,586 corporations that would experience net tax increases of $122 million. The top five beneficiaries of the change in the apportionment formula would receive an annual savings of $60 million. The intention of this change in the tax code is to improve the Illinois business climate by reducing the tax burden of companies with a large portion of their assets and payroll in Illinois. However, much of its positive impact could be lost in the future if other states make similar changes in their income allocation formulas.

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maintain the state's commitment to the health and welfare of the heavily regulated and agriculturally related horse racing industry along with a $3 million increase in funding for the Illinois Council on Food and Agricultural Research was offset by some slight declines in other General Funds spending areas.

Departments with minimal growth in spending authority for fiscal year 1999 include the Departments of Human Services (0.6%) and Revenue (0.8%). Decreased demand for social services in an expanding economy is the major factor in the small increase at Human Services as grant award appropriations have declined by $17 million or 0.7%.

For the Department of Revenue, appropriations from the General Funds have increased only $2 million for 1999 despite the fact that the state's Circuit Breaker Program which provides cash grants to the elderly for property tax relief and certain types of medication has been expanded. Eligibility for this program is determined through an income ceiling which has been raised from $14,000 to $16,000. The expanded ceiling is estimated to increase spending by $8 million in fiscal year 1999. Soft demand for cash assistance from the Circuit Breaker Program in recent years has left spending authority unchanged for fiscal year 1999 as a significant portion of appropriations were lapsed in recent years.

The only Code Department to receive a decrease in General Funds spending authority was the Department of Children and Family Services. The $38 million or 4.1% decrease in appropriations for the Department includes a $12 million or 4.5% increase for operations and a $51 million or 7.6% decrease in awards and grants The decline in grant spending authority can be attributed to a significant decrease in caseload. The number of children moving to permanent and more appropriate placement through adoption and subsidized guardianship has directly decreased caseloads and reduced the growth of foster care spending.

Contact us at our web address: http://www.comptroller.state.il.us

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