Fiscal Focus

A Publication of the Illinois State Comptroller

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COMPTROLLER
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In This Issue:

Impact of the Patient Protection and Affordable Care Act on Illinois Government

The stated intent of health care reform according to its advocates is to close the divide between those who have health care insurance and those who do not. Most Americans receive their coverage either through government programs for the poor, disabled, and elderly, through their employer, or through self purchase. However, an estimated 12.9% of the population (15.4% nationally) does not have coverage in Illinois. Given the expense of coverage, many individuals who would like to purchase insurance, but are not covered by government and employment programs have to forego the purchase and hope that they are able to avoid major medical expenses.

The federal Patient Protection and Affordable Care Act (PPACA), signed into law on March 23, 2010, opens the possibility of affordable insurance coverage to the wider population. State government will play a key role in implementing this national initiative. Among other changes, the state/federal health insurance program (Medicaid) for low income and disabled individuals administered by Illinois will be expanded. Additionally, the law calls for the creation of health insurance exchanges to provide a centralized source where individuals and small businesses can purchase qualified insurance coverage. The states are to establish these exchanges. Illinois insurance regulators will be responsible to make sure insurance providers meet the terms of PPACA.

The changes embodied in PPACA are massive and cannot be implemented immediately. The transition to full operation of PPACA is not to be completed until 2014. Transition provisions will provide partial protection to the uninsured during the interim period. Illinois' state government will have an active role in administering these transition provisions.

To the extent that the crux of the health care crisis is the high cost of providing health care in the United States, there is concern that expanding the insured population will increase the demand for health services and further ratchet up health costs. The success of PPACA depends on the ability to provide more health care without raising prices. Illinois health care officials will help implement the cost control measures to make PPACA workable.

Medicaid Coverage in Illinois
Before and After Reform

	% of Federal Poverty Level (FPL) Before Reform	% of Federal Poverty Level (FPL) After Reform
Pregnant Women	Up to 200%	Up to 200%
Jobless/Working Parents	Up to 185%	Up to 185%
Infants	Up to 200%	Up to 200%
Children 1-19	Up to 133%	Up to 133%
Childless Adults	None	Up to 133%

Medicaid

Illinois currently provides Medicaid coverage to low income pregnant women, jobless/working parents, infants, and children up to age 19 at various thresholds relative to the federal poverty level (FPL) (see table above).

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FROM THE COMPTROLLER

Dear Readers:

As the State of Illinois continues to struggle with the day-to-day impact of a national recession and the resulting fiscal crisis, we must continue to monitor events that will impact the state over the longer term. This issue of *Fiscal Focus* looks at two areas that will have impact on the state's budget over the next several years – the federal health care reform legislation and the investment in the state's infrastructure through Illinois Jobs Now!

Although the federal Patient Protection and Affordable Care Act will not be fully implemented until 2014, state governments will have significant involvement in the transition period. In addition to their new roles in regulation and the creation of health care exchanges, the states' Medicaid programs will be utilized in the attempt to expand insurance coverage. With approximately 13 percent of Illinoisans without health insurance under 2008 estimates, the work involved and the costs related to this health care expansion could be significant.

Fiscal year 2010 was the first full year under the Illinois Jobs Now! program, a multi-year capital program to fund items such as transportation and educational infrastructure. As such, the state issued nearly $3 billion in state bonds in fiscal year 2010 and spent nearly $600 million from the bond funds. Unfortunately, at the same time, the state's general obligation bond ratings were downgraded several times due to the state's fiscal situation, likely increasing the interest cost on those bonds.

Finally, this issue includes a table attempting to illustrate the impact of a portion of the federal stimulus legislation on Illinois. Although limited in scope to the information provided to the office by the state agencies, readers will be able to get a sense of the programs that have received additional federal funding during the fiscal crisis.

Your comments about this or any of our other publications are welcome. Your input can be directed to (217) 782-6000 in Springfield, (312) 814-2451 in Chicago, or via the website at www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
State Comptroller

Fiscal Focus

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

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Illinois General Obligation Bond Ratings

In order for the state to sell bonds in the marketplace, the state must obtain ratings of its credit from the credit rating agencies. The three current rating agencies are Moody's Investor Service ("Moody's"), Standard & Poor's Rating Service ("S&P"), and Fitch Ratings ("Fitch"). Generally the state chooses to get ratings from all three services as different investors have differing levels of comfort with the agencies. The ratings serve as shorthand to investors as to the credit worthiness of the state and are intended to be an indicator of the likelihood of repayment of the debt. As such, the ratings impact the cost at which the state can borrow from the markets – generally, higher ratings translate into lower costs for borrowing, while lower ratings translate into higher interest rates.

The chart on page 7 illustrates the rating history of State of Illinois general obligation (GO) bonds since 1990. GO bonds are backed by the full faith and credit of the state and the ratings on GO bonds are the best indicators as to what the rating agencies think of the state's financial health. As illustrated in the chart, initial rating downgrades tended to occur after recessions began to weaken the state's fiscal position. Further downgrades following a recession would occur if the state showed limited willingness to address the fiscal situation. Rating upgrades in the late 1990s were due to improving cash positions, decreasing Medicaid backlogs, declining GAAP deficits, and good economic performance.

It is apparent from the chart that after the Fitch and Moody's downgrades in 2003 following the 2001 recession, in the rating agencies' eyes, the state never regained its fiscal footing sufficiently enough to merit upgrades. Persistent GAAP deficits and pension system funding challenges, along with limited budgetary surpluses and payment delays were noted during this timeframe.

Since December 2008, the state's general obligation bonds have been downgraded four times by Fitch, twice by S&P and three times by

Illinois General Obligation Bond Ratings continued, page 7

PPACA expands Medicaid coverage to all non-Medicaid eligible individuals under age 65 with incomes up to 133% of the FPL. Each state has discretion in determining the pool of individuals covered under its Medicaid program. The PPACA maintenance of effort (MOE) requirement requires states to maintain current income eligibility levels for Medicaid and children covered by the Children's Health Insurance Program (CHIP). Thus in Illinois, the primary addition to the Medicaid rolls will be low income childless adults who currently are not covered by Illinois' program. The impact of the Medicaid expansion will be more modest on Illinois than on states like Texas and Alabama that currently have much lower income limits to qualify for Medicaid.

The requirement that Illinois' Medicaid program serve childless adults with income up to 133% of FPL is effective January 1, 2014. Transition period adjustments are included in the legislation for the intervening years. As of April 1, 2010, Illinois has an option to expand Medicaid to the formerly uncovered population with incomes up to 133% of FPL without a waiver. The expansion could be phased-in. Funding for the optional expansion would be at Illinois' regular federal Medicaid assistance percentage (FMAP) until January 1, 2014.

Beginning in 2014, the increase in Medicaid costs from the expansion of Medicaid eligibility is in large part to be met by an expansion of federal Medicaid assistance. Illinois will receive 100% federal funding reimbursement for 2014 through 2016 for the newly eligible individuals, stepping down to 90% federal funding for 2020 and thereafter. It will also receive 100% reimbursement beginning in 2013 for a step-up in primary care Medicaid payment rates to providers to the level of Medicare payment rates. Medicaid pharmaceutical expenditures will be reduced through increased federal Medicare Part D (pharmaceutical) coverage. Beginning in October 2015, Illinois will be eligible for a 23% increase in the regular CHIP match.

Health Insurance Regulation

Illinois' Department of Insurance will oversee the requirement that children can stay on their parents' health plans up to age 26 and will play the key role of reporting on trends in insurance premiums and identifying insurance plans with unjustified and unreasonable rate increases. The Commissioner will oversee the new regulatory standards imposed on health insurance plans contained in PPACA. These include requirements that health insurance companies can no longer impose lifetime dollar limits on benefits, cannot deny coverage, cannot charge people higher rates based on health status or gender, and cannot rescind coverage except in cases of fraud.

Other Changes Due to PPACA

There are many aspects of the federal health care reform that do not require state involvement. Some of the more significant are:

- A mandate requiring citizens and legal residents to have health coverage. With some exceptions, those without coverage will pay a tax penalty each year.
- A requirement that employers with 50 or more employees offer health insurance coverage with assessments levied on those who fail to meet this requirement.
- The provision of premium credits to low to moderate income individuals who need to purchase insurance.
- The provision of a tax credit to small employers who provide health insurance to their employers.
- To help pay for the expanded coverage, there are some federal tax increases including an increase in the Medicare tax for higher income individuals and families, a tax on high value employer sponsored health plans, and annual fees paid by the pharmaceutical manufacturing and health insurance sectors. ▯

Health Insurance Exchanges

State based health insurance exchanges will be created effective in 2014. These exchanges include both American Health Benefit Exchanges for individuals and the Small Business Health Options Program (SHOP) exchanges for small business. Illinois will receive federal funds to establish the exchanges and must decide whether the exchanges are to be administered by a state agency or by an independent non-profit. Illinois may join with other states to form a multi-state regional exchange or allow more than one exchange to operate in the state as long as each exchange serves a distinct geographic area.

The key object of the health insurance exchanges is to make the market for health insurance more efficient. Consumers entering an exchange either on-line or in person will ideally have access to several levels of insurance coverage meeting basic PPACA standards offered by for profit and non profit health insurance providers. The intent is that uniform forms and procedures will make the purchase of insurance more accessible to individuals and small businesses in the manner that other organized markets such as securities markets and eBay become more user friendly through centralization and using clear transaction rules.

Once health insurance exchanges are established, further opportunities for efficiencies could develop. For example, the information gathered by insurance exchanges could be compiled and made available to help customers in deciding their optimum insurance choice.

Illinois could also take advantage of the option to contract with an insurance company to create a Basic Health Plan for uninsured individuals with incomes between 133% and 200% of the FPL in lieu of their receiving subsidized policies through the exchange. The state could hold down rates charged under this option as it would receive 95% of the monies that would have been paid as federal premium and cost-sharing subsidies to the eligible individual.

Options for Higher Income Medicaid Families

Illinois currently provides Medicaid coverage to some pregnant women, parents, and infants with incomes between 133% and 200% of the FPL. Under PPACA, Illinois will have three

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options for providing coverage for these individuals. Illinois can keep them in the Medicaid program. They can be combined with other uninsured individuals in using the health insurance exchanges as the source for their health insurance. If Illinois chooses to create a Basic Health Plan, this plan could be used to provide insurance coverage to these individuals.

Informing About Health Care Options

As the focal point for administering many of the health care reforms, Illinois will serve as the health insurance portal for a large portion of the insured population. The law requires that Illinois provide a single online access point to individuals seeking information on their health insurance options and create a consumer assistance program through an office of health insurance consumer assistance or a health insurance ombudsman to help individuals and small businesses navigate the new system. The Medicaid program also will have to prepare to service a large new class of clients.

Temporary Transition Programs

Provisions of PPACA provide coverage for high risk individuals between the current date and 2014 when insurers must cover people with pre-existing conditions. Within ninety days of the enactment of PPACA (late June 2010), uninsured Illinoisans with pre-existing conditions will have access to a federally funded high risk insurance pool. This will provide similar coverage to that provided by the Illinois Comprehensive Health Insurance Plan (ICHIP). This PPACA provision applies to individuals who have been uninsured for six months so individuals with current ICHIP coverage will have to continue to pay the higher ICHIP insurance rate.

According to a July Department of Insurance posting, the Department is in the process of procuring an administrator for the Illinois Pre-Existing Condition Insurance plan (PXP). It is expected that IPXP will be able to enroll between 4,000 and 6,000 individuals. This spring the Governor proposed a Health Insurance Consumer's Bill of Rights that would guarantee many of the upgrades in insurance coverage contained in PPACA. It is not clear how the Bill of Rights would be enforced and financed by the state prior to the implementation of PPACA.

Impact on Insurance Costs of Retired Government Employees

Within ninety days of enactment, employers will be allowed to reduce health care costs through a temporary reinsurance program for early retirees who are between 55 and Medicare age. Participating employers, including state and local governments, will be reimbursed 80% of medical claims between $15,000 and $90,000 incurred by these retirees.

Additionally, Illinois' retiree health care costs would be reduced through increased the federal Part D (pharmaceutical) coverage. The reduction in the size of the doughnut hole (the pharmaceutical liability not covered by Medicare) will lessen the state share of retiree pharmaceutical coverage.

Paying for Expanded Medicaid Coverage

With many states facing budget crises, there has been concern whether states could afford to provide medical services to the additional Medicaid caseload created by PPACA. With the federal government picking up the most significant share of the cost for newly Medicaid eligibles, it appears that additional state Medicaid expenditures will be relatively modest.

A recent Urban Institute study divides the cost of serving new adult Medicaid clients between the states and federal governments under two scenarios: where participation by newly eligible adults is similar to participation by those currently receiving Medicaid coverage and where enhanced outreach leads to higher participation rates. The additional cost of each of these two scenarios is computed as the increase from a baseline scenario of adult Medicaid participation and costs in the absence of reform. It should be noted that this study does not analyze the cost of other changes in Medicaid beyond expanded coverage for adults.

As of fiscal year 2007, the 2.3 million clients on the Illinois Medicaid rolls were primarily children (1.312 million) with 499 thousand adults, 219 thousand elderly, and 293 thousand disabled also receiving coverage. Opening up Medicaid to low income childless adults would significantly increase these numbers. Under the standard participation scenario, the study estimates an additional 631,024 adults would join the Illinois Medicaid rolls by 2019. During the six years between 2014 and 2019, the federal government would pick up an average of 94.1% of the $20.5 billion in extra costs that would be incurred. Under the enhanced outreach scenario outlined in the study, 911,830 adults are projected to join the Illinois Medicaid rolls by 2019. During the six years between 2014 and 2019, the federal government would pick up 90.0% of the $24.6 billion in extra costs that would be incurred.

Impact of Medicaid Expansion for Adult Clients
Increased Spending Over 6 Years
2014-2019
($ in millions)

	Illinois	Federal	% Federal Spending
Standard Participation Scenario	$1,202	$19,259	94.10%
Enhanced Outreach Scenario	$2,468	$22,109	90.00%

Source: Urban Institute, Medicaid Coverage and Spending in Health Reform, National and State-by-State Results for Adults at or below 133% FPL, May 2010

Health Insurance Coverage

The U.S. Census Bureau's September 2009 issue of Income, Poverty and Health Insurance Coverage in the United States: 2008 estimated that in the United States in 2008, approximately 66.7 percent of people were covered by private health insurance. Private health insurance is described in the Census Bureau report as "a plan provided through an employer or a union or purchased by an individual from a private company". Around 14.1 percent of people were covered by Medicaid, the state/ federal health insurance program for low income families, and approximately 15.4 percent of people were not covered by any health insurance coverage throughout the year.

Utah was ranked as the state with the highest amount of people that had private health insurance with 78.1 percent with Iowa following very closely with 78 percent. New Hampshire had 77.5 percent and Minnesota and North Dakota tied with 76.8 percent. New Mexico had the fewest number of people with private health insurance, or 53.5 percent, followed by Texas with 55.6 percent. Mississippi was the third lowest state whose population had private healthcare with 56.6 percent followed by Arkansas, 57.9 percent and Louisiana with 58.6 percent.

Illinois was ranked 4th among Midwestern states and ranked 17th overall with 71.7 percent of people having private health insurance. Iowa was ranked first among Midwestern states with 78 percent followed by Wisconsin, 74.4 percent and Michigan with 72.6 percent. The lowest private coverage state bordering Illinois is Missouri with 68.5 percent. Indiana followed with 70.6 percent and Ohio with 71.2 percent.

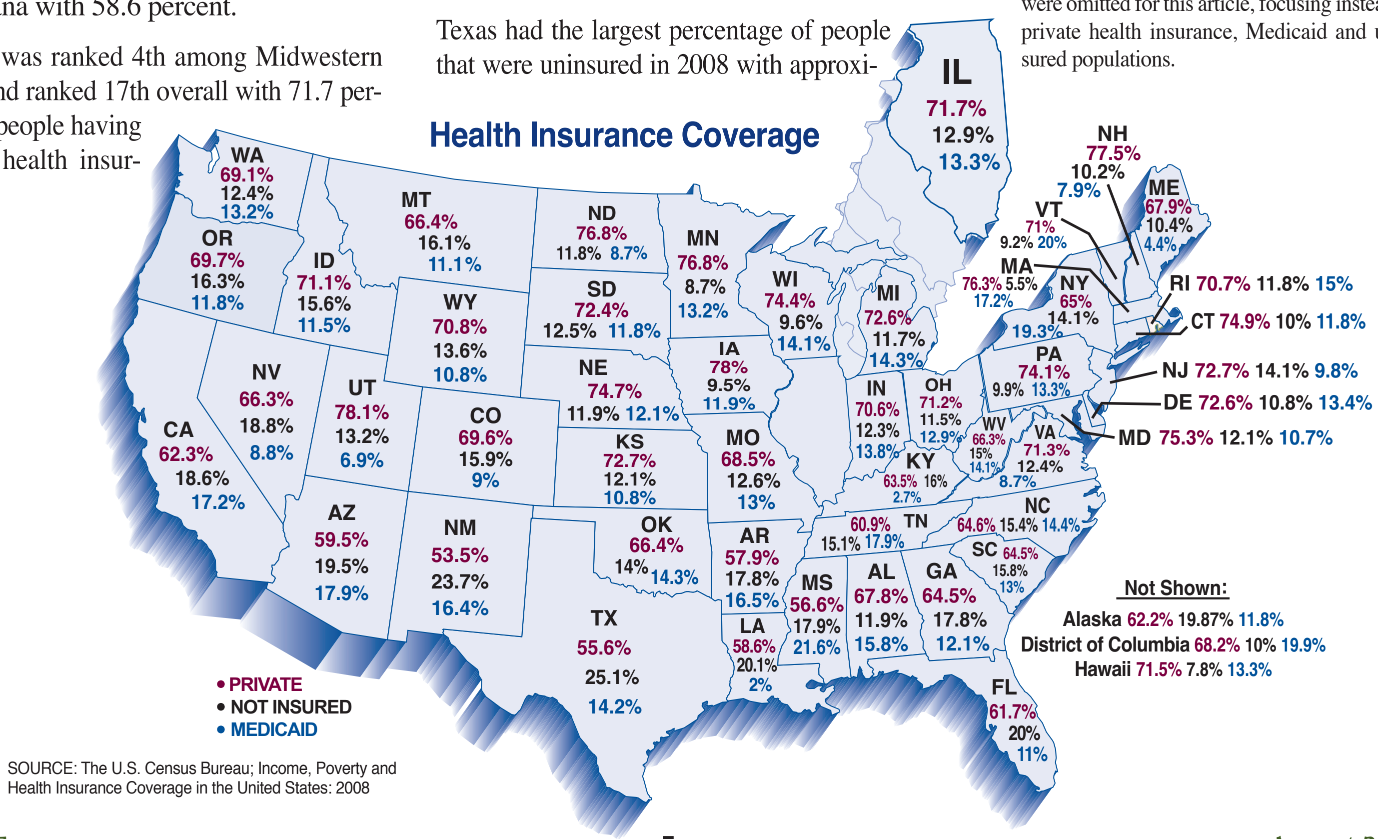
The state with the largest percentage of people on Medicaid was Mississippi with 21.6 percent. Vermont was the second highest with 20 percent and the District of Columbia followed closely with 19.9 percent. New York averaged 19.3 percent of people on Medicaid in 2008 and Arizona and Tennessee tied with 17.9 percent. The state with the least amount of people on Medicaid was Louisiana with only 2 percent. Kentucky followed closely with 2.7 percent, Maine, 4.4 percent; Utah, 6.9 percent; and New Hampshire with 7.9 percent.

Michigan was the highest ranked among Illinois' neighbors with 14.3 percent of people on Medicaid followed by Wisconsin, 14.1 percent; Indiana, 13.8 percent and Illinois at 13.3 percent. The states that border Illinois with the least amount of people on Medicaid are Iowa, 11.9 percent; Ohio with 12.9 percent and Missouri with 13 percent.

Texas had the largest percentage of people that were uninsured in 2008 with approximately 25.1 percent of the population that did not carry any type of medical insurance throughout the year. New Mexico was second with 23.7 percent, followed by Louisiana, 20.1 percent; Florida, 20 percent and Alaska, 19.8 percent. Massachusetts had the lowest figure with only 5.5 percent of people that did not carry health insurance, although this is not surprising due to the state's 2006 healthcare reform law. Hawaii came in second lowest with 7.8 percent, followed by Minnesota, 8.7 percent; Vermont, 9.2 percent and Iowa with 9.5 percent of people not having any type of insurance.

Illinois had the highest level of uninsured residents in the Midwest with 12.9 percent of people not having any health insurance. Illinois ranked 26th nationally. Among other surrounding Midwestern states, Iowa was the lowest at 9.5 percent, followed closely by Wisconsin with 9.6 percent, ranked the 5th and 6th lowest states in the nation. Ohio had 11.5 percent of people not covered, Michigan, 11.7 percent and Indiana 12.3 percent. ■

*** Note: The percentages used in this report are not anticipated to add up to 100%. In the Census Bureau report "Military" and "Medicare" were also sub categories under the government insurance grouping but were omitted for this article, focusing instead on private health insurance, Medicaid and uninsured populations.



Ramped Up Capital Spending in Fiscal Year 2010 Follows Surge in Bond Sales

In 2009, the legislature passed and the Governor signed the legislation creating Illinois Jobs Now!, the largest statewide capital program in nearly a decade. The capital program is focused primarily in the areas of infrastructure improvements for transportation, education and economic development. Authorization for the issuance of state bonds (general obligation and Build Illinois) for infrastructure spending was increased $6.7 billion in the spring of 2009. In addition, additional "pay-as-you-go" spending was provided from the state's Road Fund.

As shown in the table below, through twelve months of fiscal year 2010, capital type spending for infrastructure of $2.363 billion was $1.149 billion higher than fiscal year 2009. This included all spending from the bond-financed state funds and highway construction and road improvements from the Road Fund. The largest increase in Bond Fund spending was from the Transportation Bond Series A Fund which increased nearly $376 million. Road Fund spending also increased significantly up $500 million. Increased spending is expected to continue as the bonds are sold to finance the state's capital program.

Nearly $3 billion ($2.997 billion) in bond proceeds were received in fiscal year 2010 compared to only $151 million in all of the previous year as the Governor's office has increased the number of bonds issued to investors. The largest amount of bond proceeds deposited in fiscal year 2010 included $1.011 billion into the Transportation Bond Series A Fund, $540 million into the Build Illinois Bond Fund, $417 million into the School Construction Fund, $397 million into the Capital Development Fund, $390 million into the Transportation Bond Series D Fund (highways), and $219 million into the Transportation Bond Series B Fund (mass transit and aviation).

Proceeds from the Sale of Bonds

Dollars in Millions

	Fiscal Year 2009	2010	2011*
Transportation Bond Series A	0.0	1,011.0	644.4
Build Illinois	0.0	540.3	0.0
School Construction	0.0	417.1	0.0
Capital Development	65.6	396.9	0.0
Transportation Bond Series D	0.0	389.5	271.3
Transportation Bond Series B	60.6	219.3	238.1
Coal Development	25.2	20.7	0.0
Anti-Pollution	0.0	2.6	37.7
Total	151.4	2,997.4	1,191.5

* Amount deposited in July 2010

Selected Bond Fund and other Capital Type Spending

Dollars in Millions

	Fiscal Year 2009	2010*
Bond Funds		
Build Illinois Bond Fund	23.8	211.5
Capital Development Fund	85.1	141.1
School Construction Fund	3.4	18.5
Transportation Bond Series A Fund	3.3	379.0
Transportation Bond Series B Fund	45.5	23.7
Transportation Bond Series D Fund	0	35.9
	161.1	**809.7**
Other		
Road Fund**	1,052.7	1,552.9
Total	**1,213.8**	**2,362.6**

* Through Twelve Months.

**Includes Highway Construction and Permanent Improvements.

Of the nearly $3 billion in bond proceeds obtained in fiscal year 2010, over $2.2 billion remained unexpended through June. Bond Funds with large available balances for capital projects at the end of June 2010 included: Transportation A ($641 million); School Construction ($401 million); Transportation D ($374 million); Build Illinois ($327 million); Capital Development ($274 million); and Transportation B ($207 million). Additional general obligation bond sales in July 2010 deposited another $1.192 billion into the Bond Funds as shown in the table to the left. Unexpended appropriations, common for projects that take several years to complete, likely will be reappropriated for fiscal year 2011 capital spending.

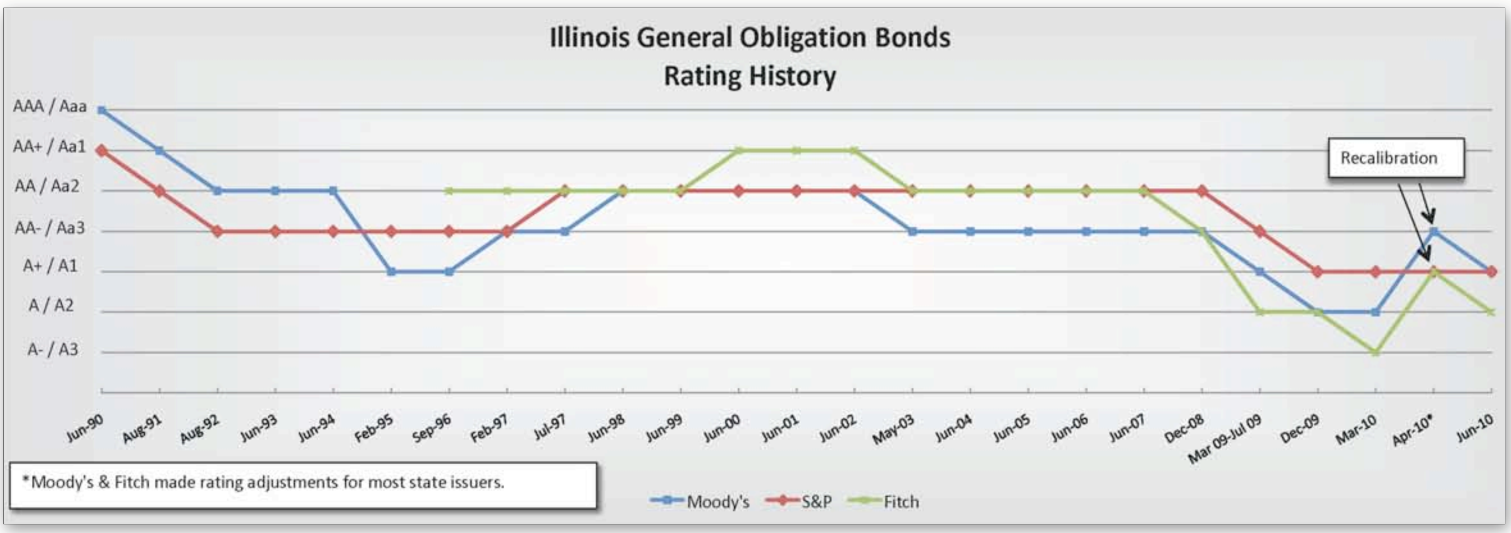
The Department of Transportation (IDOT) is charged with spending the largest portion of bond proceeds and all Road Fund dollars. All spending for Transportation Bond Series' A, B and D funds are from IDOT. The Capital Development Board is responsible for the lion's share of Capital Development Fund spending however nine other state agencies or entities had some spending authority from the Capital Development Fund in fiscal year 2010. Build Illinois Bond Fund expenditures are primarily from the Department of Commerce and Economic Opportunity although four other state agencies spent smaller amounts in fiscal year 2010.

Moody's. Illinois also has a negative outlook – meaning the possibility for further downgrades persist – with two of the three agencies as they remain concerned by the state's fiscal position. At the time of the rating actions, the agencies release a report that highlights the basis for the rating action and indicates what steps should be pursued to obtain a rating upgrade.

Standard and Poor's

Standard and Poor's has Illinois on Rating Watch Negative with a bond rating of A+ (downgraded to that in December 2009). S&P stated in their April 15, 2010 research that the reasoning for the rating is "due to the state's growing budget gap, ongoing liquidity pressure, and the lack of recurring solutions under consideration for fiscal 2011 and beyond." S&P also states that they "continue to believe that Illinois has the capacity to restore budget balance due to the absence of tax limitations or stringent constitutional or legal requirements related to spending that we see in other states, but its willingness to implement difficult and politically unpopular measures to restore budget balance is questionable in our view."

Standards and Poor's lists the varied economy, supported by Metropolitan Chicago, above-average income levels, unlimited rights to raise taxes and ability to regulate disbursements as reasons that Illinois has maintained an A+ rating.



Fitch

On June 11, 2010, Fitch downgraded Illinois' GO Bonds from an A+ to an A with a negative outlook. Fitch noted that the "downgrade reflects the magnitude and persistent nature of the state's fiscal problems and passage of a budget for fiscal (FY) 2011 that does not address either the annual operating deficit or accumulated liabilities." Fitch goes on to say that "(t)he state has not demonstrated the political willingness to take action during the fiscal crisis to restructure its budget to achieve balance and has relied almost exclusively on borrowing to close its sizeable budget gaps." Fitch indicates that the recent passage of the comprehensive pension reform, which will create a two tier pension system for state employees, increases the retirement age, and reduces benefits, will lessen future liabilities for the state is a credit positive. However, lack of future budgetary reforms could lead to additional downgrades.

Moody's

The State's GO bonds have an A1 bond rating according to Moody's Investment Service. Moody's lowered the bond rating on June 4, 2010 from an Aa3 to an A1 due to "the state's failure to enact significant recurring measures to address its structural budget imbalance for the fiscal year starting" in July 2010. Moody's went on to say that "(t)his failure underscores a chronic lack of political will that indicates further erosion of an already weak financial position." The outlook was revised to stable as this is a state general obligation bond, but Moody's points out that risks do remain for future downgrades if the state does not find a more permanent solution as an "economic rebound [is] unlikely to solve the state's problems."

Moody's, like S&P and Fitch, states that possibilities of moving the rating up for Illinois include more permanent budgetary solutions, stronger reserves and reductions in year-end unpaid bills, and some progress in addressing the costs of the state's pension systems.

Recalibration of Rating Scales

Beginning in April, Fitch and Moody's took action to "recalibrate" their municipal credit ratings by shifting the ratings assigned to governmental debt generally upwards to try to standardize ratings across all types of issuers. Historically, municipal debt has had relatively low rates of default when compared to corporate (business) debt, but the ratings scale has not reflected this – for instance, a AA municipal bond has likely been a lower risk for default than a similarly rated corporate bond. As a result of this recalibration, Illinois' ratings for general obligation debt were shifted upwards by two notches for both of the rating agencies, to A+ by Fitch and Aa3 by Moody's. These increases were not indicators of any assessed improvement in Illinois' finances, but reflect a general shift by the agencies across all state level issuers. As noted above, Fitch and Moody's have since issued downgrades to the state's debt based on concerns regarding the state's fiscal health.

Funding the New Capital Plan

The $31 billion Illinois Jobs Now! capital plan is embodied in four public acts (P.A. 96-34, P.A. 96-35, P.A. 96-36, and P.A. 96-39) signed by the Governor with appropriation reductions for P.A. 96-39 on July 13, 2009. P.A. 96-34 provides funding for the capital program through legalized video gaming and increased lottery revenues, increases in tax rates for liquor, candy, soft drinks, and health and beauty product sales, and higher motorist fees (with some additional changes included in P.A. 96-38). Monies from these new revenue sources are deposited into the new Capital Projects Fund. In addition to being used for capital projects and debt service, the fund is to provide $245 million in transfers to the General Revenue Fund each year to replace appropriations to the Secretary of State and Illinois State Police from the Road Fund (thereby freeing up Road Fund revenues). If revenues are insufficient to meet debt service needs, additional funds can be transferred from the General Revenue Fund.

Revenues for the Capital Projects Fund

Expanded Revenue Source	Estimated Full Year Additional Revenue	Fiscal Year 2010 Revenues
Legalized Video Gambling	$287 million - $534 million per COGFA estimates	$0
Expanded Lottery Sales	?	$0
Increased Liquor Tax Rates	$114 million calculated from existing liquor tax receipts	$17,324,761
Expanded State Sales Tax Base	$49 million DOR spokesman - $150 million quoted in Sun Times	$39,000,000
Increased Motorist Fees	$332 million calculated from existing motorist fee collections	$117,705,280

Expanded Gambling

A large portion of revenue would come from the legalization of video gaming such as video poker and video blackjack in bars, restaurants, veterans' halls, fraternal organizations and truck stops that possess liquor licenses. Illinois will be the first large state with legalized statewide video gaming. Louisiana, Montana, Oregon, South Dakota, and West Virginia have statewide legalized video gaming; while Delaware, New York, and Rhode Island have legalized video gaming at race tracks.

Qualified establishments will be allowed to operate up to five gaming terminals at a given time. The video poker tax rate is 30% of terminal income net of credits paid out to players with 25% going to the state and 5% to the local municipality. The Gaming Board is to regulate legalized video gaming using fees paid by providers of video gaming hardware and establishments offering video gaming. The Board has 60 days to create rules governing the video poker system. Rules must address issues such as which video gaming applicants must submit to background criminal investigations and how winnings are to be distributed. The Board must also choose a contractor to design a computer system to track video poker cash flows and must devise a procedure to license gaming machine manufacturers. A significant time lag is likely until revenues can start flowing to the state from video poker, currently projected for latter half of fiscal year 2011.

Proponents of legalizing video gaming argue that since video gaming machines are already widespread throughout the state, with some illegally paying prizes, they should be subject to state regulation. If local residents object to video gaming machines in their community, the machines can be banned through either local government ordinance or referendum. Opponents feel that easy access at neighborhood bars, restaurants and clubs makes gambling addicts particularly vulnerable to video gaming. In recognition of the potential for abusive gambling from video gaming devices, one-quarter of the fee collections is to be used for compulsive gambling programs.

Two provisions in the plan to fund the capital program are intended to raise lottery revenues. Management of the lottery is to be turned over to a private manager who is to receive no more than 5% of lottery profits. The expectation is that the addition of the profit motive will lead to an increase in sales. Additionally, a pilot project is authorized to contract with a private vendor for internet lottery wagering. The Lottery will need a federal Justice Department memorandum clarifying the legality of internet lottery sales. Means will be needed to identify the age and residence of potential internet purchasers. Minors cannot make Internet lottery purchases and, depending on the federal ruling, the pilot project might be limited to Illinois residents. Any growth in lottery revenues over the fiscal year 2009 base adjusted for inflation is to be transferred into the Capital Projects Fund.

Tax and Fee Increases

There are three tax and fee increases to help fund the capital program. In the first increase in liquor taxes since 1999, the tax rate for wine increased from 73 cents per gallon to $1.39, the tax on distilled liquor increased from $4.50 per gallon to $8.55 and the tax on beer will increase from 18.5 cents per gallon to 23.1 cents. Receipts from the old tax rate are to continue to be deposited into the General Revenue Fund and the proceeds from the addition to the tax rate are to be deposited into the Capital Projects Fund. It is forecast that these increases will raise about $114 million over each full year.

Funding the New Capital Plan *continued, page 9*

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However, litigation regarding the liquor tax has put aside most of this year's increased revenues from this tax into the state's Protest Fund until the issues are resolved.

Additional state sales tax revenues are to be raised by excluding additional soft drinks, candy, and grooming and hygiene products from the food and drug exemption. Some soft drinks had been subject to the state sales tax. The definition is now expanded to all non alcoholic beverages containing sweeteners other than milk products and drinks that are at least 50% fruit or vegetable juice. This will add items such as sweetened teas to the sales tax base. Taxable candy is defined as a preparation of sweeteners in combination with other ingredients such as chocolate, fruits, or nuts in the form of bars, drops, or pieces, but does not include flour or require refrigeration. Examples of taxable grooming and hygiene products are nonprescription soaps, cleaners, shampoo, toothpaste, mouthwash, antiperspirants, and sun tan lotions and screens. Each month, the Department of Revenue is to pay the amount of revenue received the prior month from the sale of the above products into the Capital Projects Fund.

Finally, motorist fees have risen. The annual auto registration fee is increased from $78 to $98 for the 2010 registration year, the certificate of title fee is increased from $65 to $95, the driver's license fee is increased from $10 to $30, and fines are increased for overweight trucks on Illinois highways. All proceeds from the fee rate increases are to be deposited into the Capital Projects Fund. The rate increases should generate about $332 million per year.

Anticipated Revenues

The table to the left lists expected full year revenues from the revenue plan for financing the capital program. It is apparent that there is uncertainty concerning how much revenue actually will be generated by this package. The estimates for liquor taxes and motorist fees are relatively reliable estimates where existing rates are increased on stable tax bases, while some of the other projections had a wider range of potential revenues.

The performance of revenues in the first year has fallen below original projections. The liquor tax revenues have been limited due to litigation with revenues deposited into the Capital Projects Fund only reaching $17 million. Implementation of the motorist fees increase was delayed until part of the way through the fiscal year and with a processing lag on deposit of those fees, revenues have fallen short of original estimates. However, revenues will be higher in fiscal year 2011 when a full year's collections are deposited.

The first year has seen no video gaming revenues. The Illinois Gaming Board is working through the steps to implement video gaming with the hope that the systems will be running by the end of calendar year 2010. Revenues from video gambling will depend on the following variables: how many local governments will ban video gambling, to what extent will eligible establishments participate in gambling and how much revenue will be generated per machine. The legislative Commission on Government Forecasting and Accountability (COGFA) has generated full year revenue estimates of between $287 million and $534 million using a range of plausible assumptions.

Estimates for the annual revenue from the expansion of the state sales tax base have varied from $49 to $52 million from a Department of Revenue (DOR) spokesperson to as great as $150 million in an unattributed newspaper quote. This estimate is hard to verify because the Department of Revenue does not track sales of soft drinks, candy, and personal care items and the expansion of the tax base only applies to a limited number of soft drinks and some of the products commonly called candy. One source of confusion might be a lack of awareness that soft drinks are already partially subject to the state sales tax and this legislation only expands the coverage. The soft drinks that had been subject to the state sales tax included "soda water, cola, fruit juice, vegetable juice, carbonated water, and all other preparations commonly known as soft drinks". With the new legislation soft drinks means "non-alcoholic beverages that contain natural or artificial sweeteners" other than beverages that contain milk or 50% fruit or vegetable juice. The fiscal year 2010 revenues will come below the original DOR estimate; however, once a full year of revenues are collected, it appears that next year should be close to that estimate.

Particularly difficult to measure is the possible revenue gain from the changes to the lottery law. Any increase in lottery revenue adjusted for inflation will go to the Capital Projects Fund. Will more efficient management and internet sales (which may not even be approved by the federal government) lead to increased sales during a recession? Also will legalized video games divert money that otherwise would be wagered through the lottery? The Illinois Lottery is currently working through the process to select a private manager and as a result, no revenues have been collected yet from the Lottery changes.

Illinois ARRA Revenues and Expenditures

In an attempt to minimize the impact of the United States' economic crisis, the American Recovery and Reinvestment Act of 2009 (ARRA), the federal stimulus law, was passed on February 13, 2009 by Congress and signed four days later by President Obama.

The Recovery Act was designed to strengthen and increase employment, stimulate economic activity and provide long-term growth, and to promote accountability and transparency in government spending. A large part of the stimulus funds were directed to the states either as programs to administer or to assist the states' own budget crises. States were eligible to receive money from 28 federal agencies.

According to Recovery.gov, the U.S. government's official website for data related to Recovery Act spending, Illinois has been awarded the fifth largest sum of ARRA funding. As of June 30, 2010, Illinois has received the third largest amount of funds provided, behind California and Texas.

As part of the accountability requirements of ARRA, the states are required to report quarterly on revenues and expenditures tied to the program. The Office of the Comptroller has provided additional coding and

Illinois ARRA Revenues and Expenditures continued page 11

		FY 09 (in thousands)		FY 10 (in thousands)	
Agency	**Program Name**	**Revenues**	**Expenditures**	**Revenues**	**Expenditures**
Aging	Senior Community Service Employment Program		95.6	845.6	750.0
	Aging Home-Delivered Nutrition Services		114.4	1,176.8	1,062.4
	Aging Congregate Nutrition Services		230.6	2,150.2	1,919.6
	Aging Total	*-*	*440.6*	*4,172.6*	*3,732.0*
Agriculture	Aquaculture Assistance Grants (CCC Funds)			77.2	77.2
IL Arts Council	Promotion of the Arts_Partnership Agreements			361.6	361.6
Capital Development Board	Military Construction, National Guard	-	-	20.6	-
	National Guard Military Ops and Maint Projects	-	-	1,314.5	1,335.1
	CDB Total			*1,335.1*	*1,335.1*
Children and Family Services	Foster Care Title_IV-E	4,977.4	-	5,303.3	
	Adoption Assistance	4,338.1	-	7,309.4	
	DCFS Total	*9,315.5*	*-*	*12,612.7*	*-*
IL Commerce Commission	Electricity Delivery and Energy Reliability, RD&A	-	-	70.7	-
Commerce and Economic Opp.	CFDA Community Development Block Grant	-	-	1,794.1	1,680.8
	Homelessness Prevention & Rapid Re-Housing	-	-	5,353.3	5,236.8
	WIA Adult Program	362.6	2,168.4	13,225.3	12,498.9
	WIA Youth Activities	3,033.0	14,038.3	47,100.8	33,141.4
	WIA Dislocated Workers	793.5	5,080.2	30,723.1	27,663.3
	State Energy Program	-	-	4,595.6	4,045.4
	Weatherization Assistance for Low-Income Persons	-	-	52,312.0	52,017.9
	State Energy Program Special Projects	-	-	89.7	89.7
	Electricity Delivery and Energy Reliability, RD&A	-	-	17.7	0.9
	Energy Efficient Appliance Rebate Program	-	-	11,933.4	11,932.5
	Energy Efficiency and Conservation Block Grant	-	-	1,100.3	1,097.7
	Community Services Block Grant	-	238.8	27,986.0	27,747.2
	DCEO Total	*4,189.1*	*21,525.7*	*196,231.3*	*177,152.5*
Corrections	Edward Byrne Memorial Justice Assistance Grant	-	-	4,588.4	3,693.8
IL Criminal Justice Info Auth	Violence Against Women Formula Grants	-	-	366.8	344.4
	State Victim Assistance Formula Grant Program	-	-	1,693.4	1,683.4
	Edward Byrne Memorial Justice Assistance Grant	50,198.1	-	-	13,128.6
	ICJIA Total	*50,198.1*	*-*	*2,060.2*	*15,156.4*
Education	Child Nutrition Discretionary Grants	-	-	3,630.6	3,630.6
	Education Technology State Grants	-	-	15,461.5	15,461.5
	Education for Homeless Children and Youth	-	-	2,274.2	2,274.2
	Title I Grants to Local Educational Agencies	120.5	431.5	140,805.7	140,494.6
	Special Education Grants to States	1,528.5	1,361.3	221,043.0	221,210.1
	Special Education - Preschool Grants	-	-	7,749.9	7,749.9
	SFSF-Education State Grants	1,038,987.6	689,595.9	642,143.1	601,717.2
	SFSF-Government Services	-	250,607.7	373,083.1	319,573.0
	Education Total	*1,040,636.5*	*941,996.4*	*1,406,191.0*	*1,312,111.1*
Employment Security	Employment Service/Wagner-Peyser Funded Act.	-	-	5,316.2	75.7
	Unemployment Insurance	3,187.9	-	14,683.1	-
	IDES Total	*3,187.9*	*-*	*19,999.3*	*75.7*
Environmental Protection	National Clean Diesel Funding Assistance	-	-	2,200.2	2,325.3
	State Clean Diesel Grant Program	-	-	296.8	452.6

Illinois ARRA Revenues and Expenditures continued from page 10

tracking options to the State's agencies to designate revenues and spending as being ARRA related. The following table summarizes ARRA-related revenues and expenditures in fiscal year 2009 including lapse period and fiscal year 2010 (as of June 30th), as reported to us by the agencies. However, not all agencies have utilized this option. For instance, all of the state universities received revenues from stimulus grants, but not all are represented in the table below.

The three largest ARRA revenue sources for the State of Illinois are the State Fiscal Stabilization Fund (SFSF), the Medical Assistance Program and the Highway Planning and Construction Program. These funds are spent primarily by the Illinois State Board of Education (ISBE), the Department of Healthcare and Family Services (DHFS) and the Department of Transportation.

The SFSF represents the largest amount of revenue awarded under the stimulus program so far. These funds were received by ISBE and were disbursed by ISBE, several universities and the Illinois Community College Board (ICCB). The SFSF awarded approximately $48.6 billion to the U.S. governors to provide support for education and general government programs during the recession. Consisting of two components, the SFSF provides for both Education State Grants and Government Services, with the majority intended to support education. Illinois' share of these grants exceeds $2 billion, but the grants were exhausted in fiscal year 2010.

Illinois ARRA Revenues and Expenditures continued page 12

		FY 09 (in thousands)		FY 10 (in thousands)	
Agency	**Program Name**	**Revenues**	**Expenditures**	**Revenues**	**Expenditures**
	Water Quality Management Planning	-	-	502.7	557.6
	Cap Grants for Clean Water State Revolving Fd	-	-	92,111.5	89,700.1
	Cap Grants for Drinking Water State Revolving Fd	-	-	48,877.0	48,868.0
	Leaking Underground Storage Tank Trust Fund	-	-	1,842.3	1,675.1
	EPA Total	-	-	*145,830.5*	*143,578.6*
Healthcare and Family Services	Child Support Enforcement	-	-	36,071.7	-
	State Grants to Promote Health Information Tech	-	-	153.6	1.4
	Medical Assistance Program	868,310.7	-	1,354,920.4	-
	DHFS Total	*868,310.7*	-	*1,391,145.8*	*1.4*
Human Services	Special Supplemental Nutrition Program for WIC	421.4	421.4	-	-
	Admin Matching Grants-Supplemental Nutrition Assist.	-	-	8,310.5	4,969.3
	Emergency Food Assistance Program (Admin)	-	-	1,772.0	1,454.0
	WIC Grants to States (WGS)	-	-	128.9	28.9
	Rehab Services-Vocational Rehab Grants to States	-	-	1,037.0	859.5
	Special Education - Grants for Infants and Families	8,772.2	-	8,975.3	-
	Independent Living State Grants	-	-	202.7	203.4
	Independent Living Services for Older Individuals who are Blind	-	-	452.4	452.4
	Head Start	-	-	93.1	93.1
	Child Care and Development Block Grant	-	-	23,553.2	23,549.4
	Emergency Contingency Fund for TANF	-	-	16,465.0	13,883.6
	AmeriCorps	-	11.6	2,217.4	2,205.8
	DHS Total	*9,193.7*	*433.0*	*63,207.6*	*47,699.3*
Juvenile Justice	Child Nutrition Discretionary Grants	-	-	11.4	11.4
	Edward Byrne Memorial Justice Assistance Grant	-	-	246.0	144.1
	Special Education Grants to States	-	-	133.8	44.1
	JJ Total	-	-	*391.2*	*199.6*
Public Health	Alcohol Research Programs	-	-	-	9.0
	CDCP -Investigations and Technical Assistance	-	-	-	1.2
	State Loan Repayment Program	-	-	56.3	56.3
	State Primary Care Offices	-	-	36.5	-
	Immunization	-	-	1,853.7	1,855.1
	Preventing Healthcare-Associated Infections	-	-	136.6	144.9
	ASC-HAI Prevention Initiative	-	-	58.6	-
	Prevention and Wellness	-	-	26.3	-
	Chronic Disease Self-Management Program	-	-	19.8	-
	IDPH Total	-	-	*2,187.7*	*2,066.4*
Transportation	Airport Improvement Program	-	-	17,270.4	16,714.1
	Highway Planning and Construction	48,123.9	48,591.3	506,784.3	513,781.7
	Formula Grants for Other Than Urbanized Areas	-	-	6,073.7	6,073.7
	IDOT Total	*48,123.9*	*48,591.3*	*530,128.4*	*536,569.5*
Eastern IL University	State Fiscal Stabilization Fund Grant				5,914.0
Illinois State University	State Fiscal Stabilization Fund Grant				2,152.3
Northeastern IL University	State Fiscal Stabilization Fund Grant				2,018.9
Southern IL University	State Fiscal Stabilization Fund Grant				16,335.4
Western IL University	State Fiscal Stabilization Fund Grant				3,528.5
IL Community College Bd	State Fiscal Stabilization Fund Grant				6,973.9

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ARRA provided for an enhanced rate of Federal Medical Assistance Percentage (FMAP) for the Medicaid program through December 31, 2010. Generally, the federal government's share of Medicaid funding ranges from a low of 50 percent of costs to a high of 83 percent. Under ARRA, all states received a 6.2 percent temporary increase and additional increases were available based on the rate of increased quarterly unemployment. In Illinois, FMAP increased from 50.32 percent to 60.48 percent for the first two federal fiscal quarters from October 1, 2008 to March 31, 2009. As of April 1, 2009, the total federal Medicaid match rate increased to 61.88 percent. As shown in the table, an additional $2.2 billion was received by DHFS in fiscal years 2009 and 2010 due to the enhanced Medicaid match rate. It should be noted that while DHFS has coded revenues as being due to ARRA, due to the nature of the Medicaid program, expenditures are not coded as ARRA spending. However, since the program is a reimbursement from the federal government, all receipts are tied to Medicaid expenditures. Other programs have similar comingled spending.

At the federal level, an amount of $27.5 billion was set aside for Total Highway Infrastructure Investment. The Federal-Aid Highway Program and Federal Lands Highway Program are operated through the Department of Transportation. These programs were designed to encourage states to go beyond normal highway maintenance and work to improve the National Highway System. IDOT has spent over $585 million on transportation related projects under ARRA in the last two years.

In addition to the above outlined programs funded through ARRA, many other programs exist which were designed to strengthen and improve the economic condition of the United States. The assistance provided to date appears at least to have helped state governments significantly.