



DANIEL W. HYNES  
COMPTROLLER

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Comptroller Daniel W. Hynes

JULY 2001 ISSUE



# Fiscal FOCUS

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## State Budget Set for Fiscal Year 2002

Government budgets are more than just numbers on a page. They are political documents that reflect the spending priorities of the Governor and the members of the legislature. The appropriations establish how much money state agencies will have to spend in the upcoming fiscal year, and whether programs will receive more or less money than they had in the previous fiscal year.

The money state government has available to spend comes from a variety of sources. The personal and corporate income tax, sales tax, motor fuel tax and public utility taxes are probably the most familiar, but other sources such as federal grants, agency charges and user fees, and transfers from lottery ticket sales also contribute to state revenues. These revenues, in turn, are appropriated to state agencies to spend on items such as building and repairing roads and bridges, constructing prisons, maintaining state parks and recreation areas, paying employee salaries and benefits, providing grants to schools and other units of local government, and paying doctors and hospitals for providing health care to low-income residents.

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### Dear Readers:

For those of you who might not know, the State of Illinois operates on a fiscal year basis that stretches from July 1 of one calendar year to June 30 of the next calendar year. This 12-month period of time is a cornerstone for state budgeting. The General Assembly appropriates funds to State agencies by fiscal year, and the state agencies spend their appropriations by fiscal year.

This issue of *Fiscal Focus* takes a brief look at the state budget for fiscal year 2002 (July 1, 2001 - June 30, 2002). The Illinois General Assembly enacted, and the Governor signed, a budget with \$55.138 billion in spending authority for all funds, and \$23.363 billion in General Funds. The General Funds total for fiscal year 2002 is an increase of \$644 million or 2.8% more than fiscal year 2001.

Education is again the top budget priority with 48.1% of the fiscal year 2002 increase in appropriations allocated for elementary and secondary education and 28.7% of the increase earmarked for higher education. The \$309.4 million increase for public elementary and secondary education, an increase of 5.2% over fiscal year 2001, will provide additional dollars for the general state aid payments made to local school districts. The foundation level will increase from the current \$4,425 per-pupil amount to \$4,560 per-pupil in the 2001-2002 school year.

Several state agencies will have more money to spend than last year. Appropriations for the Department of Corrections are up approximately \$89 million (7.4%), the Department of Commerce and Community Affairs is up \$12 million (11.9%), and the Department of State Police is up almost \$10 million (4.1%). The General Assembly also voted to provide funds for the Rainy Day Fund I worked to create. Approximately \$226 million has been deposited in the Fund to help Illinois face any unforeseen fiscal difficulties.

As always, your comments about this and our other publications are welcome. Your input can be sent directly, or via the web site at [www.ioc.state.il.us](http://www.ioc.state.il.us).

Sincerely,

Daniel W. Hynes  
Comptroller



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## 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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*Fiscal Focus* is published by Comptroller Daniel W. Hynes, 201 State House, Springfield, Illinois 62706. Questions or comments may be directed to (217)782-6000.

Web Address: <http://www.ioc.state.il.us>

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Printed by Authority of the State of Illinois 8/30/01 - 4,000, Job 36125



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# Fiscal Smarts

## General Funds Yearly Cash Flow

It is well known that the flow of revenues into and expenditures out of the General Funds is not evenly distributed over the course of the year. This deviation is due to the nature of the state tax structure, in particular the income tax. The flow of income tax dollars into the General Funds is driven by the April 15th payment deadline which falls in the fourth quarter of the fiscal year. An analysis of General Funds base revenues and expenditures (excluding short-term borrowing) reveals the difference in timing of revenues and expenditures, particularly in the fourth quarter. This difference can create cash flow difficulties and has implications for the end-of-year available balance in the General Funds.

On an average daily basis over the past three years, first quarter expenditures of \$88.8 mil-

lion exceeded daily revenues of \$85.3 million, a difference of \$3.5 million a day. By the second quarter, the state spends \$10.1 million a day more than it takes in. With an average of 63 processing days in the first quarter and 60 days in the second quarter, this amounts to the state spending on average over \$825 million more than it receives after six months.

By the third quarter, average daily revenues and expenditures are for the most part equal with revenues slightly ahead. However, fourth quarter average daily revenues of \$103.8 million outpace spending by \$12.1 million. With an average of 64 processing days, this implies that revenues exceeded spending by almost \$775 million in the quarter. As stated earlier, this is due primarily to income taxes, which are the largest source of

*FISCAL SMARTS continued, page 4*



## The Illinois Labor Market During Fiscal Year 2001

The Illinois employment situation worsened during fiscal year 2001, as Illinois appears to be entering a period of modest economic growth following the unusually long economic expansion of the 1990's. However, Illinois labor markets remain healthier than they have been over much of the past twenty years.

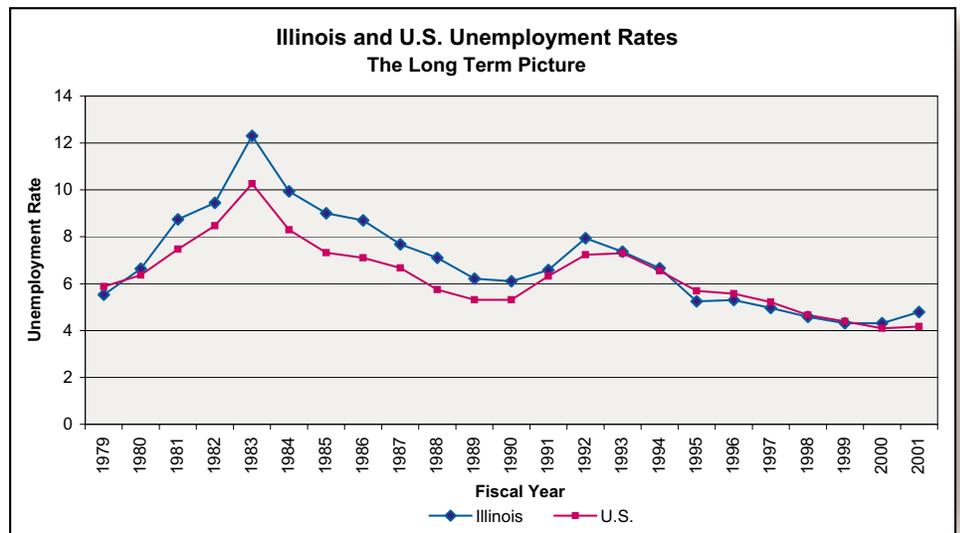
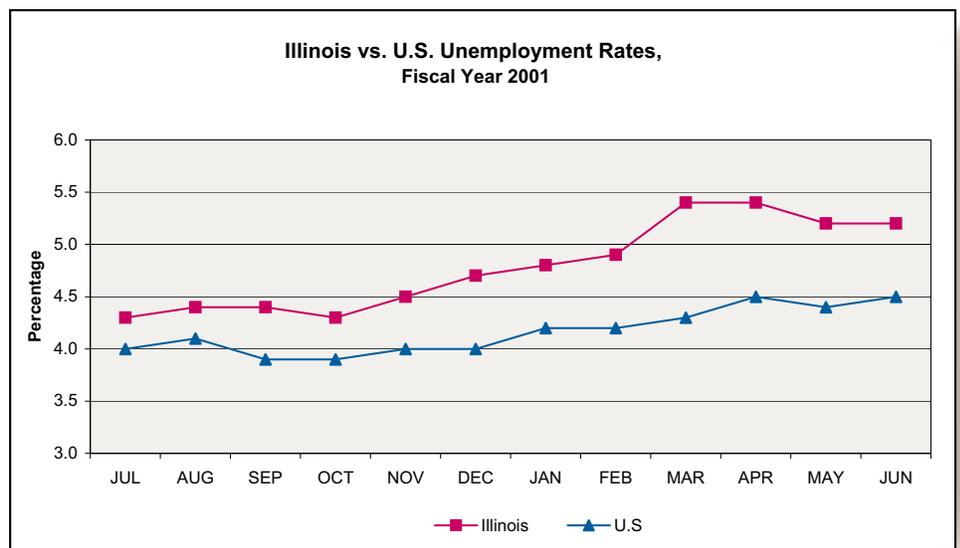
Most Illinois employment indicators deteriorated during fiscal year 2001. The Illinois unemployment rate began the fiscal year at 4.3% in July and ended the calendar year at 4.7%. In March, the Illinois rate exceeded 5.0% for the first time in 50 months and it has stayed above 5.0% for the remainder of the fiscal year. The gap between the Illinois and U.S. unemployment rates also worsened during the year. In July and August, the Illinois rate was 0.3% above the national rate. Over the final four months of the year, the Illinois unemployment rate averaged 0.9% greater than the national rate.

There was a significant increase in the number of unemployed Illinoisans during the past year. During fiscal year 2001 there were an average of 307,000 unemployed Illinoisans, 30,000 or 10.8% greater than fiscal year 2000 unemployment and the highest average unemployment level since fiscal year 1996.

The Illinois Department of Employment Security (IDES) issues two state employment estimates which moved in different

directions during the year. The first is an estimate of non-agricultural payroll employment benchmarked to data gathered from unemployment insurance tax returns. Average employment using this measure was up slightly (42,000 or 0.7%), although this was the first time since fiscal

Illinois' portion of the monthly survey used to compute the national unemployment rate as well as the non-agricultural employment estimate and Unemployment Insurance claims data. According to the second estimate, the average Illinois employment level in fiscal year 2001 was



year 1992 that Illinois non-agricultural employment grew less than 1%. To estimate the state unemployment rate, a more complete employment estimate is necessary. This estimate is derived from

down 50,000 or 0.8% from fiscal year 2000.

Other measures of labor market conditions

*ECONOMIC FOCUS continued page 4*

revenue to the General Funds accounting for more than 37% of revenues. Also, over 30% of income taxes are deposited in the fourth quarter.

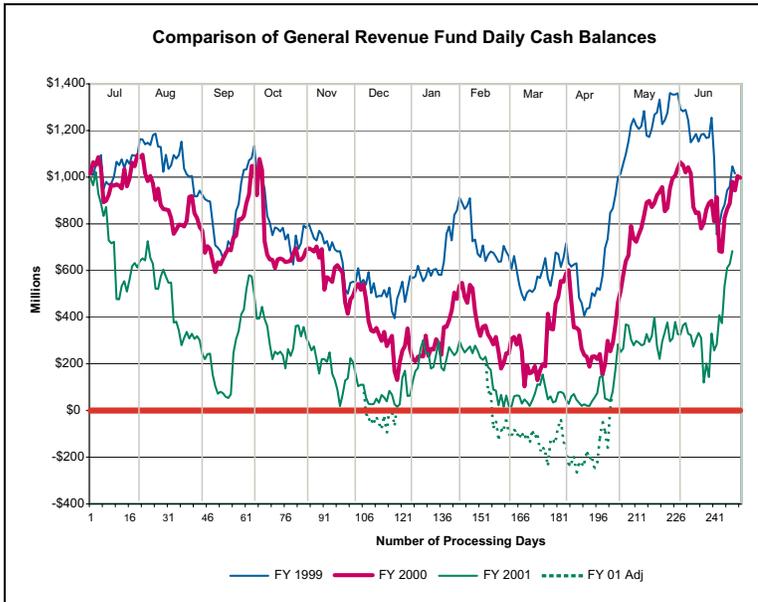
The General Revenue Fund is the main operating and the largest fund of the General Funds. The chart shows the decline from July through December in the

year the Comptroller's Office had vouchers exceeding available cash on 56 days.

the General Revenue Fund balance over the past three years. During these three years the balance dropped \$495 million in fiscal year 1999, \$796 million in fiscal year 2000, and \$935 million in fiscal year 2001. Also visible is the growth in the balance during the fourth quarter. A

With 47% of revenues received in the first two quarters of the fiscal year and 50% of spending occurring during this period, it would be prudent to maintain a minimum of 3% of expenditures in the balance at the end of the year to avoid cash flow difficulties. However, as last year demonstrated, that would still be insufficient. That may be why the financial community generally believes that 4%-5% of the state's budgetary expenditures is a more adequate working balance.

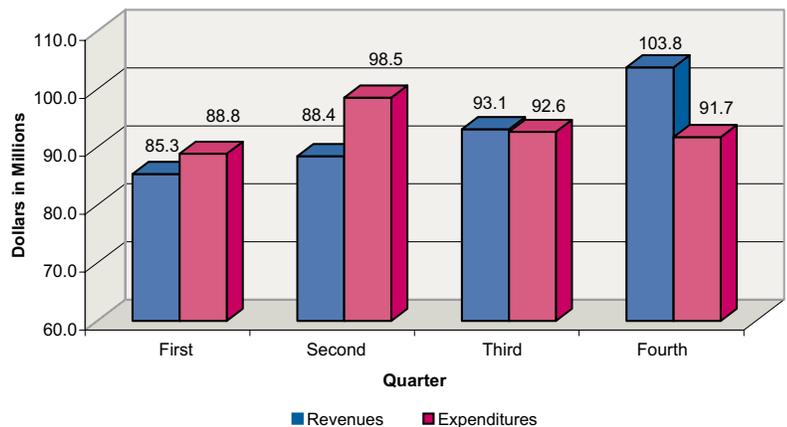
With fiscal year 2001 ending with a balance of only \$683 million in the General Revenue Fund, it is apparent that this will be insufficient to avoid cash flow problems in the current fiscal year. ■



While there is this variation in revenues, expenditures are fairly steady. Spending demands, such as payrolls and school grant payments, are for the most part consistent from month to month. As a percent of total spending, the quarterly breakdown would be around 25% for each quarter. Because of the revenue deviation, the state receives 28% of revenues in the fourth quarter. The result is a decline in the available balance from the beginning of the year through December or end of the second quarter.

balance of \$997 million at the end of fiscal year 2000 was not sufficient to avoid cash flow problems during fiscal year 2001. During the

Average Daily Base Revenues and Expenditures Fiscal Years 1999 to 2001



have also deteriorated over the past year. The number of new claims for unemployment insurance increased 85,000 or 23% between fiscal year 2000 and fiscal year 2001. Besides the increase in layoffs reflected in the unemployment insurance claims data, employers have cut back on overtime as hours worked in manufacturing industries declined from an average of 41.8 per week in fiscal year 2000 to 41.0 per week in fiscal year 2001.

become accustomed to tight labor markets. Even though the Illinois unemployment rate increased from an average of 4.3% during fiscal year 2000 to 4.8% during fiscal year 2001, this rate is a far cry from previous periods. During the recession of the early 1980's, the unemployment rate peaked at 12.3% in fiscal year 1983, and during the milder recession of the early 1990's, it peaked at 7.9% in fiscal year 1992.

Now there is news of mass layoffs. These layoffs are the extreme example of companies reacting to declining profits, foreign competition taking advantage of the strong dollar, and the collapse of the high tech bubble. So far, a strong consumer sector has maintained the economy as the bulk of the population does not believe that their employment is periled. Most forecasters believe the current downturn will be brief and mild and prevent unemployment rates from approaching the levels of past downturns. ■

During the long period of economic growth during the 1990's, Illinoisans have

A year ago, there were many stories about companies having trouble filling jobs.

Traditionally, Illinois has appropriated funds to state agencies grouped by line-items such as personal services, Social Security and retirement withholding, equipment, contractual services, telecommunications, printing, travel, electronic data processing (EDP), or grants-in-aid. For analytical purposes, these line-items are often aggregated into major categories, with "operations" and "grants" gaining most of the attention. Another distinction that is made is between "all funds" and the "General Funds." The General Funds are a subset of all funds and include the General Revenue Fund, the Common School Fund, the Common School Special Account Fund, and the Education Assistance Fund.

### General Funds Appropriations Total \$23.363 Billion

For fiscal year 2002, the Illinois General Assembly enacted, and the Governor signed, a budget with \$55.138 billion in spending authority for all funds, and \$23.363 billion in General Funds. Unlike past years, there are no major new initiatives. Instead, the budget is more constrained, contains no tax increases, and allows for small spending increases in many areas. The watch word seems to be to keep an eye on spending, especially Medicaid costs, to see if spending cuts may need to be imposed during the year.

The \$23.363 billion General Funds total for fiscal year 2002 is an increase of \$644 million or 2.8% more than fiscal year 2001. Of this increase, \$469 million or 72% is for operations and \$196 million or 31% is for grants. Despite the fact that the majority of the General Funds increase is going for operations, grants still comprise the bulk of the state budget. For example, grants total \$16.031 billion or about 69% of the \$23.363 General Funds budget while operations account for \$7.245 or 31%.

Education is again the top budget priority with 48.1% of the fiscal year 2002 increase in appropriations allocated for elementary and secondary education and 28.7% of the increase earmarked for high-

er education. Over the past three fiscal years, education funding has grown by \$951 million and accounted for 46% of the total increase in General Funds appropriations over the period.

Appropriations for the code departments that include agencies such as Public Aid, Human Services, Corrections, and Children and Family Services increased only \$118.749 million or 0.9% from fiscal year 2001 to fiscal year 2002 and account-

ed for 18.5% of the increased appropriations. Taken together, education and the code departments account for 95.2% of the increase in General Funds spending authority.

General Funds appropriations for the offices of elected officials (Governor, Lt. Governor, Secretary of State, Attorney General, Treasurer, Comptroller) increased 4.9% from \$310.029 million in

COVER STORY continued page 10

General Funds Appropriations (Dollars in Millions)				
	Fiscal Year		2001-2002	
	2001	2002	Change \$	Change %
<b>Legislative Agencies</b>	\$ 79.524	\$ 80.529	\$ 1.005	1.3
<b>Judicial Agencies</b>	325.443	346.511	21.068	6.5
<b>Elected Officials:</b>				
Governor	10.637	11.009	0.372	3.5
Lt. Governor	3.032	3.138	0.106	3.5
Attorney General	41.281	42.826	1.545	3.7
Secretary of State	183.608	192.852	9.244	5.0
Comptroller	29.089	30.312	1.223	4.2
<i>Elected Officials' Salaries</i>	23.413	25.468	2.055	8.8
Treasurer	18.969	19.633	0.664	3.5
<b>Total, Elected Officials</b>	<b>310.029</b>	<b>325.238</b>	<b>15.209</b>	<b>4.9</b>
<b>Code Departments:</b>				
Aging	235.519	235.912	0.393	0.2
Agriculture	74.851	78.906	4.055	5.4
Central Management Services	726.025	759.825	33.800	4.7
Children and Family Services	927.421	925.466	(1.955)	(0.2)
Commerce and Community Affairs	102.918	115.120	12.202	11.9
Corrections	1,213.718	1,303.220	89.502	7.4
Human Services	3,768.075	3,802.542	34.467	0.9
Natural Resources	164.619	157.713	(6.906)	(4.2)
Public Aid	5,329.001	5,264.676	(64.325)	(1.2)
Public Health	124.569	128.310	3.741	3.0
Revenue	250.805	250.374	(0.431)	(0.2)
State Police	239.331	249.057	9.726	4.1
Transportation	98.647	99.278	0.631	0.6
Veterans Affairs	38.977	41.245	2.268	5.8
All Other Code Departments	39.768	41.349	1.581	4.0
<b>Total, Code Departments</b>	<b>13,334.244</b>	<b>13,452.993</b>	<b>118.749</b>	<b>0.9</b>
<b>Education:</b>				
Elementary & Secondary Ed. (Incl. TRS)	5,901.557	6,210.971	309.414	5.2
Higher Education:				
Board of Higher Education (Incl. SURS)	325.463	347.390	21.927	6.7
State Universities	1,409.009	1,502.455	93.446	6.6
Illinois Community College Board	319.428	372.665	53.237	16.7
Student Assistance Commission	408.637	423.752	15.115	3.7
All Other Higher Education	17.015	17.968	0.953	5.6
<b>Total, Higher Education</b>	<b>2,479.552</b>	<b>2,664.230</b>	<b>184.678</b>	<b>7.4</b>
<b>Total, Education</b>	<b>8,381.109</b>	<b>8,875.201</b>	<b>494.092</b>	<b>5.9</b>
<b>Other Agencies:</b>				
Capital Development Board	53.037	40.385	(12.652)	(23.9)
Environmental Protection Agency	30.479	30.220	(0.259)	(0.8)
All Other	205.173	211.541	6.368	3.1
<b>Total, Other Agencies</b>	<b>288.589</b>	<b>282.146</b>	<b>(6.443)</b>	<b>(2.2)</b>
<b>TOTAL</b>	<b>\$ 22,718.938</b>	<b>\$ 23,362.618</b>	<b>\$ 643.680</b>	<b>2.8</b>

# HOW Illinois Stacks Up

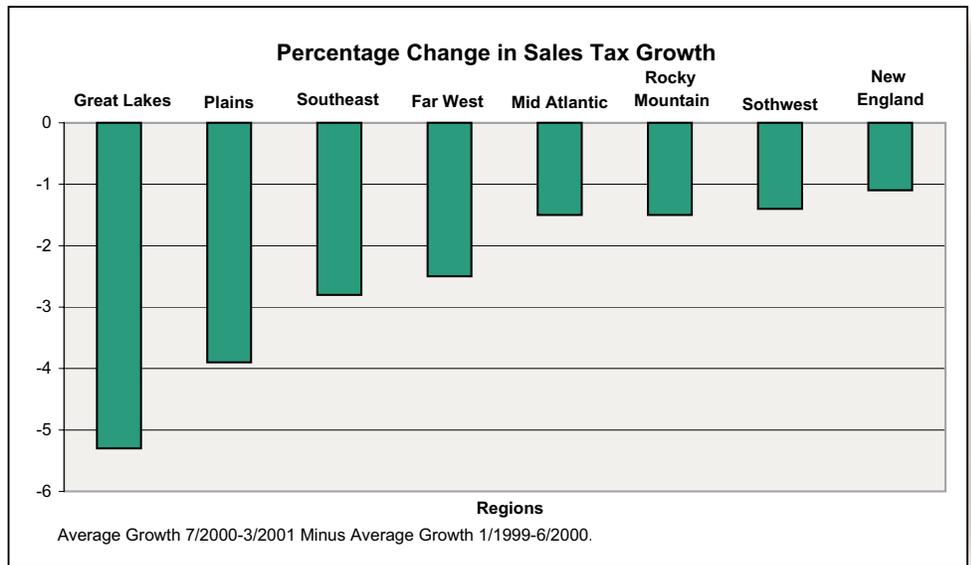
states. Louisiana had the highest growth rate with an increase of 8.4 percentage points, while Vermont had the worst case with a decrease of 6.7 percentage points. Twelve states had declines of over 5 percentage points: Alabama, Florida, Indiana, Maine, Michigan, Minnesota, Nebraska, Ohio, Tennessee, Vermont, Washington, and Wyoming.

The decrease in the sales tax growth rate exhibited a regional pattern (see bar chart). As a whole, states in New England and the Southwest fared the best. States in the Great Lakes and Plains regions had a greater decrease, -5.9 points and -3.9 points respectively, than the national average of -2.7 points. Illinois fared the best of the Great Lake states since Ohio decreased 6.2 percentage

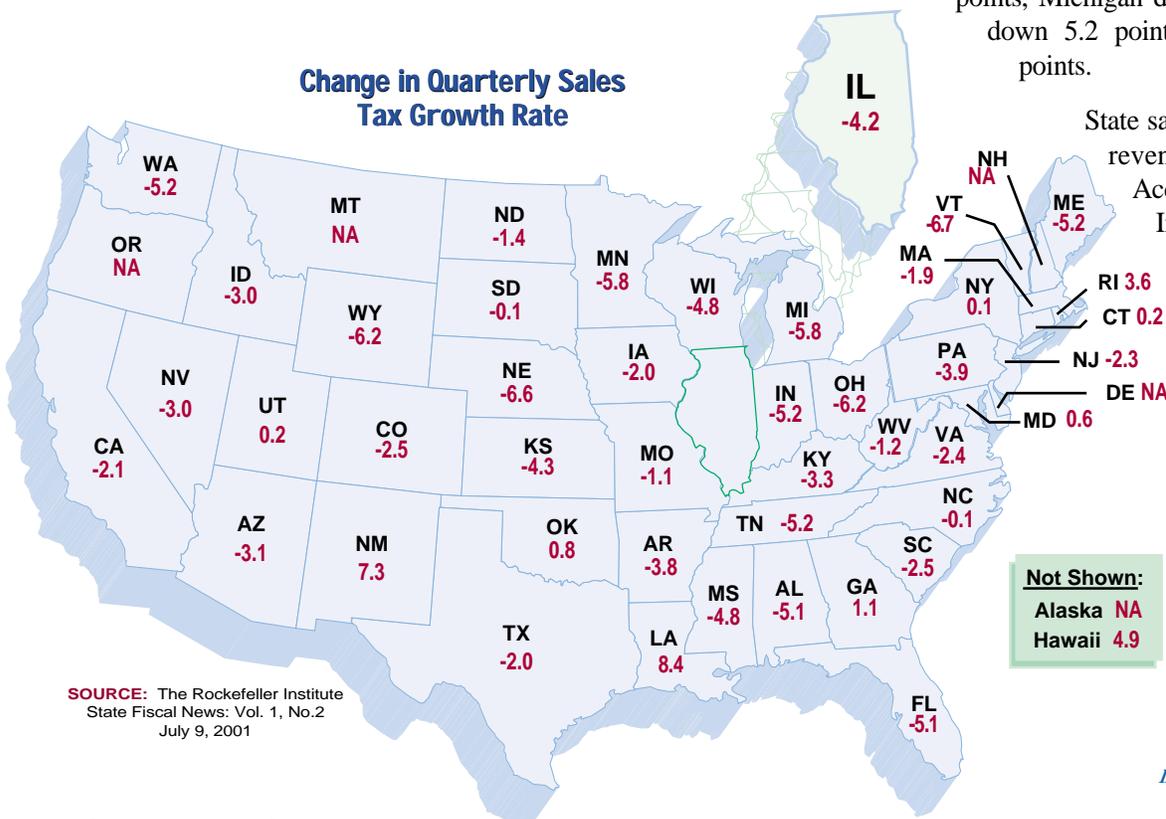
## Sales Tax Growth Slump

The sales tax growth rate for states declined from 8.2 percent in January-March quarter of 2000 to 3.3 percent in the January-March Quarter of 2001. According to the Rockefeller Institute of Government, the sales tax growth rate has declined in 35 of the 45 states that have a general sales tax. This is the slowest growth rate in nearly nine years.

The Rockefeller Institute also compared the average sales tax growth rate for the three quarters from July 2000 to March 2001 to the average growth rate for the previous six quarters from January 1999 to June 2000. Illinois' sales tax growth rate declined by 4.2 percentage points which ranked Illinois 30th out of 45



## Change in Quarterly Sales Tax Growth Rate



points, Michigan declined 5.8 points, Indiana was down 5.2 points, and Wisconsin slipped 4.8 points.

State sales tax growth was not the only revenue source that was down. According to another Rockefeller Institute report, total state tax revenue growth was weak for the January-March 2001 quarter compared to the same period in 2000. In addition to the weak growth rate of sales taxes, personal and corporate income tax revenues declined or grew slower than expected in some states.

**Not Shown:**  
Alaska NA  
Hawaii 4.9

## Impact on State Budgets

The Rockefeller Institute notes that the downward

ILLINOIS STACKS UP continued, page 13

# CEMETERY

## Care Corner

### Comptroller Takes Action to Protect Consumers

On Wednesday, June 13, 2001, Comptroller Hynes filed a civil action against, and formally revoked the license of, Randall Smith, owner and operator of Smith Funeral Home of Paris, Illinois.

Following a three-month investigation into alleged violations of the Illinois Funeral or Burial Funds Act, it was determined that Randall Smith had failed to entrust money paid to him by consumers for the pre-arrangement of funeral or burial services.

A thorough investigation into Mr. Smith's conduct uncovered misappropriations of approximately \$95,000 between the period of April 1992 and July 2000.

In conjunction with the revocation order filed with the Edgar County Courthouse, Comptroller Hynes requested that the Illinois Funeral Directors Association be appointed to act as receiver in the management of the funeral home's trust funds. In addition to these complaints, the Comptroller filed for restitution for those consumers whose monies were unlawfully diverted by the owners of Smith Funeral Home.

Under the Illinois Cemetery Care Act, Funeral or Burial Funds Act, and Pre-Need Cemetery Sales Act, the Comptroller is

responsible for regulating over 2,000 licensed providers of perpetual care, pre-need services, pre-need merchandise, and pre-construction services. By law, licensed entities must disclose financial information in order to demonstrate prop-



er management of consumers' funds. The Illinois Office of the Comptroller performs in-house analysis of these financial reports and, additionally, in conjunction with a team of field auditors, conducts routine

audits of licensed funeral homes and cemeteries throughout the state. If a review of these reports or an audit of the financial records finds that a licensee has failed to meet the statutory requirements as directed under the related act, the licensee may, under the discretion of the Comptroller, find their license subject to revocation. Furthermore, any licensee who violates any provision in the statutes may be subject to a class 4 felony charge.

Although the majority of licensees demonstrate proper compliance and appropriate business practices, the Office of the Comptroller will continue with its current efforts to increase industry compliance and aggressively pursue dishonest business owners.

In the spring of 1999, a consumer hotline was set up whereby consumers may ask questions and voice concerns related to licensee practices. If you or anyone you know has concerns or complaints concerning Illinois cemeteries or funeral homes, please contact us at 1-877-203-3401. The Comptroller's staff is ready to assist you. ■



## Revenue Estimates Urge Caution

For the ninth consecutive year, General Funds revenue growth in fiscal year 2001 exceeded the initial expectations that were in place at the start of the year. Over the last several years, the driving force behind the unexpected growth has been a robust economy. During this period, revenue sources most closely tied to the economy (personal and corporate income taxes and sales taxes) generally produced more revenue than originally expected. Underestimates of total revenue growth ranged as high as \$480 million in fiscal year 1998 and \$690 million in fiscal year 2000.

While the \$856 million in revenue growth surpassed the estimated growth of \$810 million, it was the lowest dollar increase since fiscal year 1994 when an additional \$837 million was realized. In addition, the rate of revenue growth for fiscal year 2001 was the slowest since fiscal year 1991, 3.7% compared to 3.3%. [See *How Illinois Stacks Up*].

### General Funds Base Revenue Growth Estimated vs Actual

(Millions of Dollars)

Fiscal Year	Estimated Revenue	Actual Revenue	Annual \$ Change		\$ Diff.	Annual % Change	
			Estimated Growth	Actual Growth		Estimated Growth	Actual Growth
1990	\$ 13,009	\$ 12,841	\$ 876	\$ 708	(168)	7.2%	5.8%
1991	\$ 13,471	\$ 13,261	\$ 630	\$ 420	(210)	4.9%	3.3%
1992	\$ 14,532	\$ 14,032	\$ 1,271	\$ 771	(500)	9.6%	5.8%
1993	\$ 14,523	\$ 14,750	\$ 491	\$ 718	227	3.5%	5.1%
1994	\$ 15,410	\$ 15,587	\$ 660	\$ 837	177	4.5%	5.7%
1995	\$ 16,622	\$ 17,002	\$ 1,035	\$ 1,415	380	6.6%	9.1%
1996	\$ 17,713	\$ 17,936	\$ 711	\$ 934	223	4.2%	5.5%
1997	\$ 18,660	\$ 18,854	\$ 724	\$ 918	194	4.0%	5.1%
1998	\$ 19,504	\$ 19,984	\$ 650	\$ 1,130	480	3.4%	6.0%
1999	\$ 21,384	\$ 21,674	\$ 1,400	\$ 1,690	290	7.0%	8.5%
2000	\$ 22,560	\$ 23,250	\$ 886	\$ 1,576	690	4.1%	7.3%
2001	\$ 24,060	\$ 24,106	\$ 810	\$ 856	46	3.5%	3.7%
2002	\$ 25,000	NA	\$ 894	NA	NA	3.7%	NA

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

### General Funds Revenues by Source Comparison of Estimated (BOB) to Actual Growth (Dollars in Millions)

Sources	July 2000 Estimate FY 2001	Actual FY 2001	Error Actual - Estimate	
			\$ Diff.	% Diff.
Income	\$ 9,120	\$ 9,032	(88)	(1.0%)
Personal	8,000	7,996	(4)	(0.1%)
Corporate	1,120	1,036	(84)	(6.8%)
Sales	6,180	5,958	(222)	(3.7%)
Public Utility	1,160	1,146	(14)	(1.3%)
Cigarette	400	400	0	0.0%
Liquor	135	124	(11)	(8.6%)
Inheritance	370	361	(9)	(2.6%)
Insurance	220	246	26	12.4%
Corporate Franchise	125	146	21	15.2%
Interest	245	274	29	12.4%
Cook IGT	245	245	0	0.0%
Other	430	441	11	4.7%
S-T Borrowing	0	0	0	NA
<b>Total, State Sources</b>	<b>18,630</b>	<b>18,373</b>	<b>(257)</b>	<b>(1.4%)</b>
<b>Federal Aid</b>	<b>4,060</b>	<b>4,320</b>	<b>260</b>	<b>6.7%</b>
Transfers-In:				
Riverboat Gaming	400	460	60	18.2%
Lottery	515	501	(14)	(2.7%)
Other	455	452	(3)	(0.6%)
<b>Total Transfers-In</b>	<b>1,370</b>	<b>1,413</b>	<b>43</b>	<b>3.1%</b>
<b>Total Revenues</b>	<b>24,060</b>	<b>24,106</b>	<b>46</b>	<b>0.2%</b>
Minus S-T Borrowing	0	0	0	NA
<b>Base Revenue</b>	<b>\$ 24,060</b>	<b>\$ 24,106</b>	<b>\$ 46</b>	<b>0.2%</b>

Unlike prior years, the unexpected growth for fiscal year 2001 was not due to economic activity. In fact, a closer look at revenue sources indicates that the impact of the faltering economy was barely offset by revenue growth in areas unrelated (or less related) to the economy. State sources were \$257 million below estimate, largely the result of the slower-than-expected growth in the corporate income, sales and public utility taxes. This low performance was offset by federal sources that came in at \$260 million over estimate, and by transfers in that were \$43 million over the estimates. The higher transfers in came from riverboat gaming, which brought in \$60 million more than first expected due largely to the timing of transfers.

Even though revenue growth exceeded original expectations by \$46 million, the state's financial condition worsened during the fiscal year. Over the year, spending demands exceeded revenue and the General Funds end-of-year cash balance

FOCUS ON REVENUE continued, page 13



## Fiscal Year 2002 Spending Authority

General Fund's appropriations as passed by the General Assembly total \$23.363 billion for fiscal year 2002. This represents an increase of \$644 million or 2.8% over fiscal year 2001 spending authority. Of the increase, \$469 million is for operations, \$196 million is for awards and grants and all other appropriations are down \$21 million.

The \$469 million or 6.9% increase in operations to \$7.245 billion accounts for 72.8% of the increase in total appropriations from

fiscal year 2001. Higher education institutions account for roughly one-fourth of both the total increase in operations and the total dollars appropriated. Fiscal year 2002 higher education operations spending authority of \$1.783 billion is \$123 million or 7.4% higher than the previous year.

The Department of Corrections recorded both the second highest level of spending authority from the General Funds as well as the second largest dollar increase. Fiscal year 2002 operations spending authority

for the Department is set at \$1.284 billion, \$91 million or 7.6% above 2001.

The third largest increase in operations spending authority was for the Department of Human Services. Appropriations of \$1.166 billion for fiscal year 2002 are \$81 million or 7.5% higher than 2001.

Percentage wise, the Department of Public Aid received the biggest jump in spending authority for fiscal year 2002. The \$177 million operations appropriation is \$41 million or 30.1% larger than 2001. All of this increase is due to a cash infusion of \$45 million from the General Revenue Fund to the Child Support Enforcement Program. While no monies were appropriated for this assistance in fiscal year 2001, a supplemental appropriation was approved in fiscal year 2000 for this purpose which carried the program through the 2001 fiscal year.

Awards and grants appropriations of

*FOCUS ON SPENDING continued, page 16*

**General Funds Appropriations for Operations and Grants  
FY 1998, FY 2000, FY 2001 and FY 2002  
(Dollars in Millions)**

Operations	FY 1998	FY 2000	\$	%	FY 2001	\$	%	FY 2002	\$	%
			Change	Change		Change	Change		Change	Change
Higher Education	\$ 1,393	\$ 1,575	\$ 182	13.1	\$ 1,660	\$ 85	5.4	\$ 1,783	\$ 123	7.4
Corrections	919	1,107	188	20.5	1,193	86	7.8	1,284	91	7.6
Human Services	969	1,022	53	0.0	1,085	63	N/A	1,166	81	7.5
Central Management Services	517	647	130	25.1	701	54	8.3	738	37	5.3
Children and Family Services	265	288	23	8.7	293	5	1.7	307	14	4.8
Supreme Court	177	208	31	17.5	219	11	5.3	226	7	3.2
State Police	183	224	41	22.4	237	13	5.8	247	10	4.2
Public Aid	109	217	108	99.1	136	-81	(37.3)	177	41	30.1
Other	861	1,117	256	29.7	1,252	135	12.1	1,317	65	5.2
<b>Total Operations</b>	<b>\$ 5,393</b>	<b>\$ 6,405</b>	<b>\$ 1,012</b>	<b>18.8</b>	<b>\$ 6,776</b>	<b>\$ 371</b>	<b>5.8</b>	<b>\$ 7,245</b>	<b>\$ 469</b>	<b>6.9</b>
<b>Grants</b>			\$	%		\$	%		\$	%
	FY 1998	FY 2000	Change	Change	FY 2001	Change	Change	FY 2002	Change	Change
Elementary & Secondary Education										
State Board of Education	\$ 4,067	\$ 4,741	\$ 674	16.6	\$ 4,927	\$ 186	3.9	\$ 5,132	\$ 205	4.2
Teachers Retirement System	430	650	220	51.2	733	83	12.8	822	89	12.1
Public Aid	\$ 3,897	\$ 4,696	\$ 799	20.5	\$ 5,193	\$ 497	10.6	\$ 5,088	\$ (105)	(2.0)
Human Services	2,460	2,461	1	0.0	2,681	220	8.9	2,635	(46)	(1.7)
Higher Education	675	772	97	14.4	816	44	5.7	881	65	8.0
Children and Family Services	671	637	(34)	(5.1)	635	(2)	(0.3)	619	(16)	(2.5)
Other	656	803	147	22.4	850	47	5.9	854	4	0.5
<b>Total Grants</b>	<b>\$ 12,856</b>	<b>\$ 14,760</b>	<b>\$ 1,904</b>	<b>14.8</b>	<b>\$ 15,835</b>	<b>\$ 1,075</b>	<b>7.3</b>	<b>\$ 16,031</b>	<b>\$ 196</b>	<b>1.2</b>
<b>Total Appropriations</b>	<b>\$ 18,345</b>	<b>\$ 21,294</b>	<b>\$ 2,949</b>	<b>16.1</b>	<b>\$ 22,719</b>	<b>\$ 1,425</b>	<b>6.7</b>	<b>\$ 23,363</b>	<b>\$ 644</b>	<b>2.8</b>

fiscal year 2001 to \$325.238 million in fiscal year 2002. That increase is 2.4% of the total appropriations increase.

Legislative agencies increased 1.3 % from \$79.524 million to \$80.529 million while judicial agencies grew 6.5% for the same period. All other agencies, however, are down 2.3% with the appropriations for the Capitol Development Board declining 23.9% from \$53.037 in fiscal year 2001 to \$40.385 in fiscal year 2002.

**Education Leads the Way**

Of the \$494.092 million increase in educational funding for fiscal year 2002, \$309.414 million or 62.6% is for public elementary and secondary education - an increase of 5.2% over fiscal year 2001. Operations appropriations for the State Board of Education increased by \$13 million while grants are up \$205 million. Appropriations for awards and grants include the general state aid apportionment (which is distributed to schools through a special equalization formula), categorical grants (which are distributed based on specific program requirements), and retirement contributions. The general state aid appropriations for fiscal year 2002 total \$3.225 billion, \$230 million or 7.7% more than 2001. The per-pupil foundation level will increase from the current \$4,425 level to \$4,560 per-pupil in the 2001-2002 school year.

Categorical grant spending authority of \$1.907 billion for fiscal year 2002 is 1.3% or \$25 million lower than fiscal year 2001 while statutorily required retirement contributions of \$822 million are up \$89 million or 12.1%.

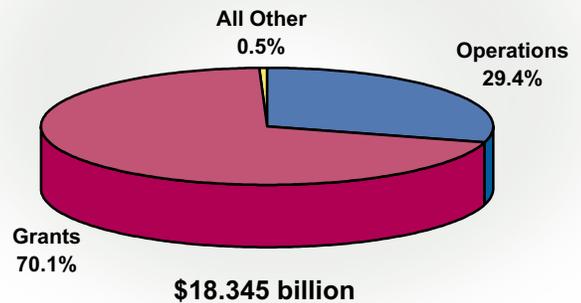
Higher education appropriations of \$2,664.230 million from the General Funds in fiscal year 2002 represent an increase of \$184.678 million or 7.4% over 2001. Universities, which account for 56.4% of higher education funding, increased \$93.446 million or 6.6%. Student Assistance Commission spending authority increased \$15.115 million or 3.7% and Illinois Community College Board funding was increased by \$53.237 million or 16.7%. Funding for the State Universities Retirement System (included under Board of Higher Education in accompanying table) increased \$9.4 million or 4.2%.

The large percentage increase for the Community College Board (CCB) is due in part to the transfer of adult education and literacy programs from the State Board of Education to the CCB.

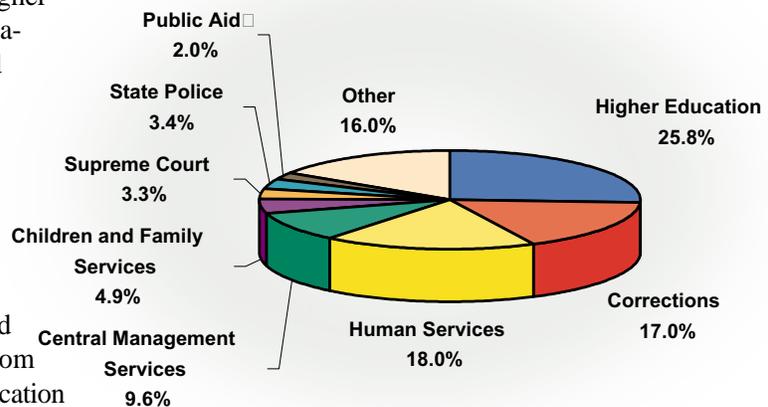
**Code Departments**

For fiscal year 2002, code departments account for 57.6% or \$13,452.993 million of total General Funds appropriations

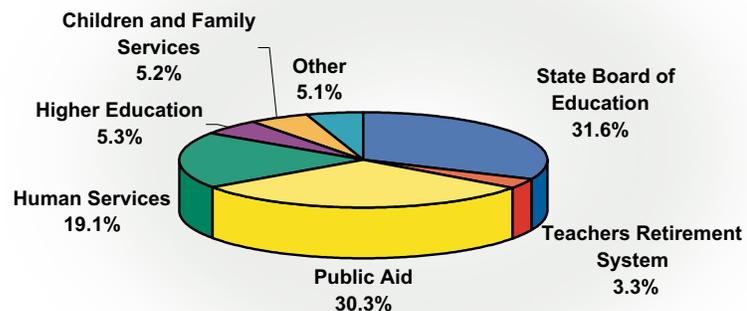
**General Funds Appropriations  
Fiscal Year 1998**



**Operations Appropriations  
Fiscal Year 1998**

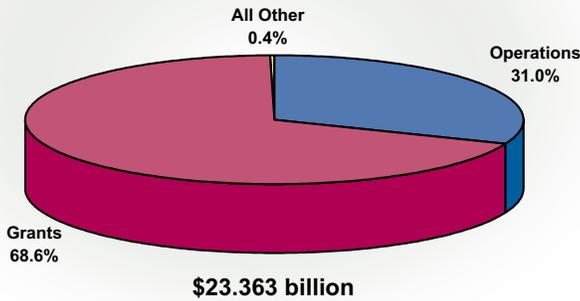


**Grants Appropriations  
Fiscal Year 1998**

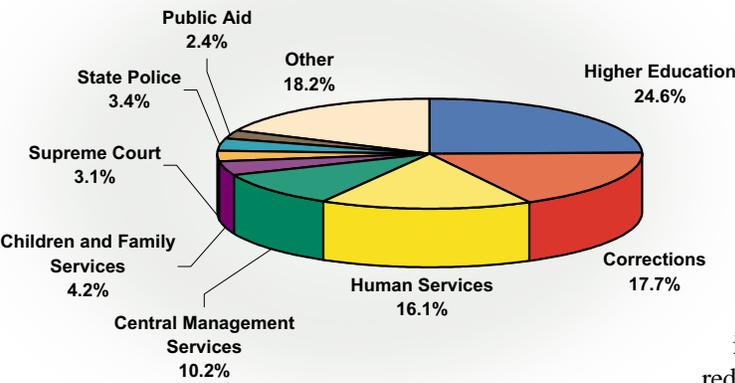


	1998	1999	2000	2001	2002
State Aid Apportionment	\$ 2,471	\$ 2,923	\$ 2,982	\$ 2,995	\$ 3,225
Categorical Grants	\$ 1,531	\$ 1,518	\$ 1,759	\$ 1,932	\$ 1,907
Teachers' Retirement	\$ 495	\$ 584	\$ 650	\$ 733	\$ 822
<b>TOTAL</b>	<b>\$ 4,497</b>	<b>\$ 5,025</b>	<b>\$ 5,391</b>	<b>\$ 5,660</b>	<b>\$ 5,954</b>

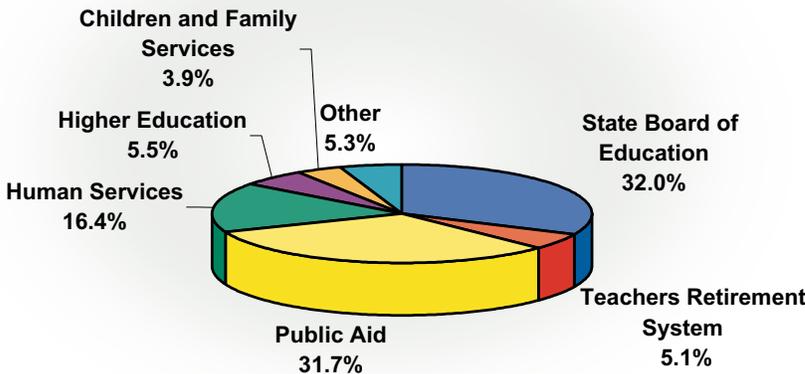
**General Funds Appropriations  
Fiscal Year 2002**



**Operations Appropriations  
Fiscal Year 2002**



**Grants Appropriations  
Fiscal Year 2002**



while receiving 18.4% or \$118.749 million of the total increase in appropriations. Of this total net increase, 75.4% or \$89.5 million is directed to the Department of Corrections. The majority of the increase for Corrections is for personnel services and related benefits. The increase includes staff hired for the new Lawrence adult facility and Kewanee youth facility, and the annualization of wages for new employees hired late in fiscal year 2001.

Surprisingly, although the Department of Public Aid (DPA) administers programs such as Medicaid and Child Support Enforcement, the General Funds appropriations for the department decreased \$64.325 million (-1.2%) from \$5,329.001 million in fiscal year 2001 to \$5,264.676 million in fiscal year 2002. In reaction to increased Medicaid program costs last fiscal year, DPA delayed rate increases for hospitals and reduced the dispensing fee to pharmacies. This year, DPA will make use of \$170 million from the Drug Rebate Fund to provide grants for prescription drugs. However, some observers are concerned whether Illinois can keep pace with increasing Medicaid costs. Even the Governor's budget message mentioned the possibility of a \$270 million shortfall in the Medicaid program.

The Department of Human Services is the second largest code department in terms of funding with \$3,802.542 million (\$34.467 million above fiscal year 2001) appropriated from the General Funds for fiscal year 2002. These funds will support programs such as Temporary Assistance to Needy Families (TANF), child care and development, substance abuse treatment, and a nutrition program for women and infants. The Department of Children and Family Services, which provides child welfare and adoption services and maintains a child abuse and neglect hotline, received funding of \$925.466 million for fiscal year 2002, \$1.955 million or 0.2% lower than 2001. The Departments on Aging and Public Health have their General Funds appropriations set at \$235.912 million and \$128.310 million respectively for the 2002 fiscal year and this will provide support for elder abuse and community care programs, as well as for health assessments and screenings and infectious disease prevention and control. As a group, these social services agencies received \$10.191 billion in General Funds spending authority for fiscal year 2002 and account for 43.6% of total General Funds appropriations for the fiscal year.

Other code departments with significant increases in funding for fiscal year 2002 include Agriculture (up \$4.055 million or 5.4%), Central Management Services (up \$33.800 million or 4.7%), State Police (up \$9.726 million or 4.1%), and Veterans Affairs (up \$2.268 million or 5.8%).

In addition to the decreases for the Departments of Public Aid and Children and Family Services, two other code departments received less General Funds appropriations in fiscal year 2002 than in fiscal year 2001. The Department of Natural Resources is down \$6.906 million (-4.2%), and the Department of Revenue is down 431 million (-0.2%).

**Health Care**

Last year, most states faced sharp increases in Medicaid program costs. Illinois responded by delaying rate increases for hospitals and reducing the dispensing fee

*COVER STORY continued page 12*

to pharmacies. However, rising health care costs, particularly high prescription drug costs, are still evident. A recent study by The National Institute for Health Care Management reports that expenditures for prescription drugs increased 18.8% from 1999 to 2000, and accounted for 44% of the increase in overall health care expendi-

the state employee's group health insurance program to be \$1,202.2 billion which is \$25.2 million more than the estimate from the Department of Central Management Services. In another report issued in April 2001, the IEFEC estimates that the teachers' retirement insurance program could suffer a fiscal year 2002 deficit

### Rainy Day Fund

On a more positive note, the General Assembly did authorize funding for the Rainy Day Fund that was established last year. In fiscal year 2002, approximately \$225 million will be deposited in the fund to help Illinois face any unforeseen fiscal difficulties.

### A Look Back

Have the spending priorities of the state government changed? Relative to fiscal year 1998, the answer is not much. The pie charts show that, as a percentage of General Funds, appropriations for human services are down a little, appropriations for government services, public safety and economic development are up slightly, and appropriations for education and environment are about the same. These changes are consistent with public decisions that have been made over the past few years regarding welfare reform, toughness on crime, and rising health and retirement costs.

An important point to remember when comparing these recent budgets is that each fiscal year the pie has been getting larger. Therefore, even if a state agency receives the same relative share of the budget each year, it will receive more funds when the budget is larger. Larger budgets are often based on natural revenue growth from one year to the next. However, budgets can be negatively affected when revenues do not reach expected levels.

Dept. of Public Aid	FY 2000 Appropriations	FY 2001 Appropriations	FY 2002 Appropriations	% Change FY 2000-01	% Change FY 2001-02
Physicians	381.1	463.7	465.0	21.7%	0.3%
Dentists	58.7	68.7	66.8	17.0%	-2.7%
Optometrists	6.9	7.9	8.1	15.6%	1.8%
Podiatrists	1.1	2.3	2.4	105.8%	2.5%
Chiropractors	0.6	1.3	1.5	126.4%	16.8%
Hospital-Inpatient	1,293.3	1,533.6	1,539.5	18.6%	0.4%
Drugs	790.4	975.7	926.7	23.4%	-5.0%
Skilled/Int LTC	1,172.0	1,041.4	964.6	-11.2%	-7.4%
Community Health	74.3	86.1	84.3	15.8%	-2.1%
Hospice Care	18.5	21.9	23.2	18.6%	6.2%
Laboratories	13.8	17.9	15.5	29.4%	-13.6%
Home Health	54.2	67.2	67.2	23.8%	0.1%
Appliances	34.5	42.5	42.2	23.0%	-0.6%
Transportation	58.5	66.4	63.1	13.7%	-5.0%
Medicare Part A	11.8	10.7	10.8	-9.4%	0.7%
Medicare Part B	85.0	90.8	89.8	6.9%	-1.1%
HMO/Managed Care	218.9	221.4	220.5	1.2%	-0.4%
Renal Disease	2.2	2.4	2.9	7.9%	21.1%
Hemophilia	5.9	4.0	4.0	-32.4%	0.4%
Sexual Assault	0.5	0.6	0.6	17.6%	-6.2%
<b>General Revenue</b>	<b>4,617.3</b>	<b>5,122.3</b>	<b>4,985.4</b>	<b>10.9%</b>	<b>-2.7%</b>
<b>Special Funds</b>					
UI Hospital Services	173.4	173.4	173.4	0.0%	0.0%
County Hospital Services	1,231.1	1,231.1	1,231.1	0.0%	0.0%
Long Term Care Provider	379.2	379.3	534.2	0.0%	40.8%
Drug Rebate Fund	NA	NA	170.0	NA	NA

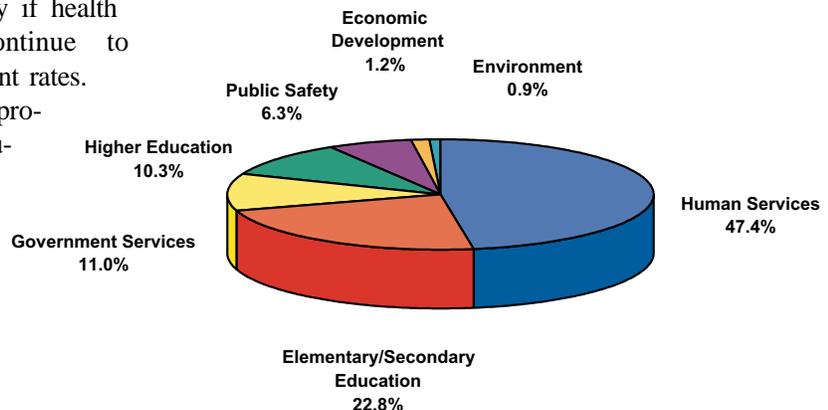
tures in 1999. Also, Medicaid spending on prescription drugs has more than tripled rising from \$4.8 billion nationally in 1990 to \$17 billion in 1999. This situation has led some observers to question whether the state budget will be able to support program expenditures in fiscal year 2002.

For example, comparing the percentage changes for Medicaid line-item appropriations for fiscal year 2002 relative to the changes for fiscal year 2001 shows some unrealistically low increases and, in some cases, decreases in funding. Other state health expenditures are also problematic. A March 2001 report by the Illinois Economic and Fiscal Commission (IEFC) estimates the fiscal year 2002 liability of

if increased funding is not available to meet escalating program costs.

The point is that the state budget, as enacted, may not be in a position to adequately fund certain health-related programs, especially if health care costs continue to increase at current rates. The Medicaid program, in particular, is an entitlement that would require payment from future budgets.

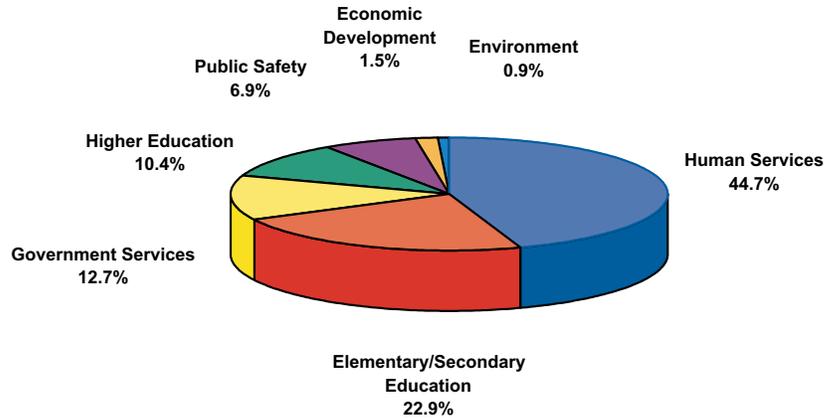
FY 1998 General Funds Appropriations by Function



## A Look Ahead

The fiscal year 2002 General Funds budget appears to leave the state on questionable financial footing. The Bureau of the Budget has projected General Funds revenues for the fiscal year at \$25.0 billion and spending at \$25.126 billion. However, the continuing economic slowdown could result in lower revenues while rising health care and welfare costs could result in higher expenditures. Since the end-of-year cash balance for fiscal year 2001 was down

FY 2002 General Funds Appropriations by Function



## Fiscal Forum

Last month's questions concerned the possibility of charging fees to support state parks and recreation. The questions and the responses from our readers are presented below:

Do you think Illinois should charge an admission fee for state parks and recreation areas to support operations?

YES... 31%  
NO... 69%

Do you think Illinois should charge an admission fee for state parks and recreation areas if the funds raised are used to acquire new land and maintain existing areas?

YES... 41%  
NO... 59%

This month's question concerns the State budget and spending priorities. Rank each of these budget areas on a scale from 1 to 10 (with 1 = least important, 5 = moderately important and 10 = most important) based on your preferences.

- Economic Development
- Education
- Environment
- Human Services/Public Health
- Public Safety
- Transportation

To respond to this question, simply log onto the Comptroller's Web site at [www.ioc.state.il.us](http://www.ioc.state.il.us).

\$391 million from the previous year, and the cash balance dropped another \$210 million from the end of June to the end of July, it appears that cash flow difficulties loom on the horizon for the General Revenue Fund (*see Focus on Revenue and Vital Statistics*). ■

### Illinois Stacks Up concluded, from page 6

trend is due to a number of factors including the general slowing of the economy and a significant drop in consumer confidence. Although the revenue changes vary among regions, and even among states in the same region, governments will be monitoring the situation closely to avoid problems in the next year. According to a February 2001 survey by the National Conference of State Legislatures, five

states were planning to tap into reserve funds to balance their fiscal year 2001 budgets, and another six states were considering that possibility. For fiscal year 2002 budget preparations, the survey identified a common theme of uncertainty due to expectations that revenues would be lower and health and education expenditures would be higher in the coming year. ■

### Focus On Revenue continued, from page 8

dropped by \$391 million. In the General Revenue Fund, the state's largest operating fund, the balance fell by \$314 million and spending demands in excess of available cash forced payment delays on 56 of the state's 247 processing days.

overestimating revenue growth can have disastrous budgetary consequences. This happened in the early 1990s when three consecutive years of overestimates, partly the result of deteriorating economic conditions, precipitated the slide into the state's worst fiscal condition in memory.

### Estimates for Fiscal Year 2002

The long string of unexpected positive revenue surprises has been an important factor in the improved budgetary performance over the last several years. While extraordinary economic growth can fuel revenue growth and budgetary improvements, budget makers must keep in mind that

By most accounts, the state and national economies are going through a period of extremely slow economic growth. This slowdown is expected to last for the first half of the fiscal year with some improvement possible in the second half. Given the fiscal year 2001 performance of the sources

*FOCUS ON REVENUE continued, page 16*

# LOCAL Government Line

## Local Government Budgets Changing

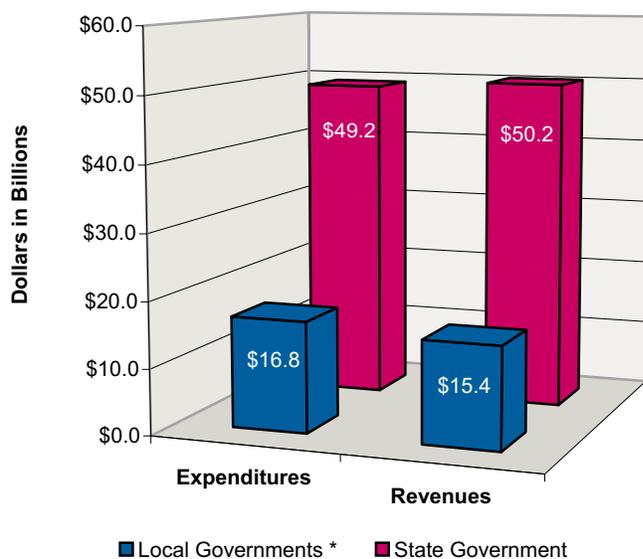
The Agenda for Financial Stability proposed by Comptroller Hynes for the State of Illinois sets forth principles of accountability and responsibility that apply equally to local governments. State government needs to plan financially in an honest and realistic manner in order to provide services and pay bills without asking more from the taxpayers of Illinois. Local governments are no different. Setting aside a reasonable amount of cash reserves, borrowing responsibly and providing honest, understandable budgets are vitally important for the local governments that maintain and police streets, assist seniors, educate children and provide so many other services.

While individually smaller than state government, thousands of local governments provide many essential services and raise billions of dollars in revenue through property taxes, sales taxes and a variety of user fees. In fiscal year 1999, the more than 4,700 local governments that report their finances to the Office of the Comptroller collected over \$15 billion in revenues (this excludes school and community college districts as well as some drainage districts). Expenditures from these local governments amounted to over \$17 billion. Collectively, this is almost

1/3 the size of the state budget.

From the smallest multi-township assessment districts to the largest municipalities, each unit of local government can use the principles of financial planning outlined in the Agenda for Financial Stability. The taxpayers of Illinois would benefit twice if both state and local government would commit to financial stability.

**Expenditures and Revenues of Illinois Governments, FY 1999**



\* Sum of local governments reporting to Office of the Comptroller.

## Saving for a Rainy Day

Local governments that maintain adequate, but not excessive, cash reserves can ride out fluctuations in revenue streams caused by the property tax cycle or the business cycle. They are required to pay their bills within 30 days, unlike the 60 or 90 days which state government agencies

are permitted. The more timely billing cycle for local governments requires them to be even more conscientious about their cash flow. A three- to six-month reserve is recommended for municipalities and counties. Local governments that are more dependent on property taxes sometimes require a higher fund balance to ride out the tax cycle. Conversely, having excessive reserves not only reflects inaccurate planning, but also is a potential legal liability. The Illinois Supreme and Appellate Courts have consistently held that having monies available equal to more than two times average annual expenditures is strong evidence of an unnecessary accumulation of tax dollars. So much so that it is sufficient to sustain an objection to the fund's tax levy. (See *Toynnton v. Commonwealth Edison*, 285 Ill.App.3d 357; 674 N.E.2d 809 (3rd Dist 1996)). Cash management for local governments is like finding porridge and a bed for Goldilocks. It can't be too much and it can't be too little. It has to be just right.

The sum of ending fund balances for reporting units was over \$11 billion in fiscal year 1999. The ratio of fund balance to expenditures was 65% or an eight-month reserve. In the less volatile general funds this ratio was 39% or a four-month reserve. Thus, on average, most units of local government are collecting taxes and retaining fund balances in a healthy manner.

## Paying Down Debts

In fiscal year 1999, reporting local governments spent approximately \$1.8 billion on debt service. This accounted for 11% of all expenditures by reporting local governments. These governments ended their fiscal year holding \$22 billion in debt. This total represents \$1,816 of outstanding debt for every Illinois resident.

Using bonds and long-term financing for public investments is sometimes like purchasing a house with a mortgage — a

*LOCAL GOVERNMENT LINE continued, page 15*

method of responsibly purchasing valuable assets over time. However, postponing tough policy decisions through an over-reliance on borrowing can result in fiscal stress, producing long-term financial difficulties. Eliminating deferred liabilities, avoiding short-term borrowing and evaluating the cost-effectiveness of bonds shows a long-term commitment to fiscal health and a consideration of future generations of taxpayers. Like the federal and state governments, local governments must consider the true costs of their borrowing.

### Truth-in-Budgeting

Most local governments meet the technical requirements of budgeting. Generally, the local government passes a budget and appropriations ordinance before the end of the first quarter of the fiscal year (after holding one public hearing that was properly noticed prior to the hearing). Other technical requirements for specific types of governments are followed. State laws generally give local governments great discretion in what accounting methods to use; however, the misuse of budget gimmicks (e.g., stretching out payment cycles to certain vendors) does not appear to be as prevalent in local governments.

Media and public attention to local government budgets is typically subdued when compared to the resources devoted to covering the formulation of the state and federal budgets. Large publicly financed projects or tax increases are typically the only items that spark sizable public interest in a local unit's budget. Many times a local government's budget is essentially unchanged from the previous year's budget and is adopted with little analysis or scrutiny. Financial statements and budgets are not designed to encourage public evaluation of the financial position of the local government. Most statutory requirements are designed to protect against fraud, abuse or corruption. A forthright evaluation of the effectiveness of a local government is often an afterthought in the typical budget process.

Many local governments will be changing

their accounting procedures when the new standards of the Governmental Accounting Standards Board (GASB) Statement Number 34 take effect. These changes are intended to improve financial reporting by governments. Under GASB No. 34, governments will have to provide an objective and easily readable analysis of their financial performance for the year. The financial statements (including the budget presentation) should allow the public to:

- Assess the finances of the government in its entirety, including the year's operating results;
- Determine whether the government's overall financial position improved or deteriorated;
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services;
- Review and analyze the cost of providing services to its citizenry;
- Review and analyze how the government finances its programs-through user fees and other program revenues versus general tax revenues;
- Understand the extent to which the government has invested in capital assets, including roads, bridges, and other infrastructure assets;
- Make better comparisons between governments.

[SPECIAL NOTE: GASB 34 was discussed in greater detail in the May/June 2001 issue of *Fiscal Focus*]

Implementing GASB No. 34 compliant accounting standards should provide more accurate and understandable local government budgets. Policy makers will be better able to understand and evaluate the financial position of their governments and adjust their priorities accordingly.

Of course GASB No. 34 and accounting methods are only part of improving the budget process for local governments. Financial stability requires minimizing errors in projecting future expenses. Some

smaller governments have already taken the initiative and hired actuaries to evaluate their assets, capital projects and budgets. By understanding their true financial position today they have been better able to plan for future expenditures. Properly depreciating a township road grater doesn't sound exciting, but it can help avoid a financial crunch or tax hike in the future, which is what financial stability is all about.

### Local Government Assistance

As part of the statutory responsibility of the Office of the Comptroller, the Local Government Division provides training, data analysis and assistance to local governments and the public. Most units of local government are required to file an Annual Financial Report (AFR) in a format prescribed by the Comptroller. Thus, the Local Government Division has worked with the almost 5,700 reporting entities and their associations to increase the timeliness, accuracy and ease of reporting.

In fiscal year 1999, roughly 94% of local governments complied with statutory financial reporting requirements. This is a dramatic increase from fiscal year 1997 when only 66% of the governments complied with reporting requirements.

Last year over 1,600 people, including 500 CPAs, attended statewide training programs conducted by the Local Government Division. Many local governments received assistance on the toll-free local government assistance hotline (1-877-304-3899) or in-person from a representative of the Division.

In addition, hundreds of elected officials from townships, fire protection districts and other local governments received individual data summaries that allow them to compare their reported finances to governments of a similar size and type. By comparing themselves to other units on such fiscal yardsticks as the ratio of fund balances to expenditures and per capita revenues and expenditures, local officials gain a better understanding of what successes they can build upon or where they need to improve.

*LOCAL GOVERNMENT LINE continued page 16*

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## Focus On Revenue concluded, from page 13

tied to the economy and the current expectations for economic activity for the fiscal year, it seems prudent to assume that fiscal year 2002 revenues will not be substantially higher than fiscal year 2001. Sales taxes are particularly worrisome given the fact that this source is down over the last seven months even though the sales tax on motor fuel was reinstated in January.

The Bureau of the Budget's estimate for fiscal year 2002 General Funds revenue stands at \$25.0 billion, \$894 million above fiscal year 2001 revenues. At the current time there appears to be more risk that revenues are overestimated than underestimated. Even if this estimate holds up, the fact that the new fiscal year is starting with \$391 million less in the General Funds (\$314 million less in the General Revenue

Fund) does not bode well. Cash shortages and payment delays will occur in the General Revenue Fund during much of fiscal year 2002. While there is \$226 million available in the Budget Stabilization Fund, that amount will only be enough to alleviate, not eliminate the problem. If the revenue estimate proves to be optimistic, the financial situation will deteriorate rapidly. ■

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## Local Government Line concluded from page 15

The Local Government Division is working with township officials to help address concerns that have been raised in the media about high fund balances and disproportionate expenditures on "general government" (i.e., the "administrative expense" category) in some townships. Improved reporting by townships has already led to a reduction in spending reported as "general government" from 47% to 42% — a decrease of \$12 million. Individual town-

ship officials are beginning to seriously look at, and address, structural causes of large surpluses in their fund balances by reducing tax levies or formalizing capital improvement programs.

The Comptroller's Office is committed to helping local officials and members of the public better understand local government finances. AFRs and audits from recent years for most local governments are avail-

able upon request from the Local Government Division. Customized reports or data that allow comparisons of different units of government can also be produced. The Local Government Division's section of the Comptroller's website allows visitors to view data summaries for individual units along with the average and median data for similar unit types. ■

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## Focus On Spending concluded, from page 9

\$16.031 billion for fiscal year 2002 are \$196 million or 1.2% higher than the previous year. The major portions of General Fund's grants are for the state's social services programs and education. In fact, the big three social services agencies (Public Aid, Human Services and Children and Family Services) account for 52.0% of General Funds grant appropriations while education accounts for 42.6%.

Grant appropriations for education increased \$359 million in fiscal year 2002 including \$294 million or 5.2% for elementary and secondary education and \$65 million or 8.0% for higher education. The increased spending authority for elementary and secondary education includes a \$230 million increase for general state aid and an \$89 million increase in teacher's retirement contributions.

Social services appropriations for the Departments of Public Aid (down \$105 million), Human Services (down \$46 million) and Children and Family Services (down \$16 million) declined by a collective \$166 million from 2001 levels. All other agencies General Funds grant appropriations increased \$4 million. ■

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## Vital Stats concluded from page 17

or 3.4% lower than the previous year. The decline in spending can be attributed to the fact that last July \$260 million was transferred to the Fund for Illinois' Future as part of the Illinois FIRST infrastructure program. This year no such transfer for that purpose was made. Had that transfer not been made last year, July spending would have increased by \$196 million over last year.

### Looking Ahead

After experiencing cash flow difficulties in the General Revenue Fund on 56 days during fiscal year 2001, we head into the second month of fiscal year 2002 (August) with \$334 million less than last year. Given this situation, it appears obvious that cash flow difficulties loom on the horizon for the General Revenue Fund again. While the state's Budget Stabilization Fund and its \$226 million balance may provide some help with the impending cash flow difficulties, it does not appear to be nearly enough to avert all cash shortages. ■

# Vital Statistics

The Heartbeat of Illinois' Finance

## General Funds End-of-Year Balance Drops \$391 Million From Prior Year

Slowing revenue growth, in conjunction with a considerable increase in spending, combined to drag the General Funds fiscal year 2001 end-of-year balance down by \$391 million from the end of the previous fiscal year. After three consecutive years of all-time high end-of-year available cash balances in the state's General Funds, the \$1.126 billion end of 2001 fiscal year balance was 25.8% lower than \$1.517 billion balance at the end of fiscal year 2000.

Most of the decline in the General Funds balance was in the General Revenue Fund. The \$683 million end-of-year balance in the General Revenue Fund was \$314 million or 31.5% below the fiscal year 2000 end-of-year balance. The three school funds which make up the remainder of the General Funds were down a combined \$77 million.

## General Funds Revenues - Up 3.7% Over FY 2000

For fiscal year 2001, General Fund's revenues totaled \$24.106 billion, \$856 million or 3.7% higher than fiscal year 2000. The \$856 million growth in revenues is significantly lower than the \$1.465 billion average increase over the previous three fiscal years and the 3.7% increase is the lowest percentage increase since 1991.

Federal source revenues along with personal income tax receipts and other revenues account for \$968 million or 113.1% of the total increase in General Funds revenue. Compared to fiscal year 2000, federal revenues are up \$428 million or 11.0%, personal income taxes are up \$310 million or 4.0%,

and other revenues are up \$209 million or 90.1%. The \$209 million increase in other sources is due to a \$200 million transfer from the Build Illinois escrow account in June. Excess monies from this account had not been moved since fiscal year 1996. The large increase in federal monies is due to significantly increased federally reimbursable spending, primarily for Medicaid.

Other sources which increased over last fiscal year include: Gaming Fund transfers from riverboat gambling proceeds (up \$130 million or 39.4%); investment income (up \$41 million or 17.6%); insurance taxes and fees (up \$37 million or 17.7%) and public utility taxes (up \$30 million or 2.7%). The increase in riverboat gambling revenues is due primarily to the timing of the transfers from the Gaming Fund to the Education Assistance Fund.

Corporate income tax and sales tax receipts recorded the largest declines among the General Funds major revenue sources. The \$201 million or 16.2% decline in corporate income taxes was partially expected and is a result of a one-time payment of approximately \$130 million in March of fiscal year 2000. The \$69 million or 1.1% decline in sales taxes reflects the loss of an estimated \$150 to \$175 million due to the temporary exemption of motor fuel sales from the tax base for the first half of fiscal year 2001.

## General Funds Spending Up 6.1% Over FY 2000

During fiscal year 2001, General Funds cash expenditures totaled \$24.497 billion, \$1.413

billion or 6.1% higher than last year. For the year, total expenditures exceed revenue by \$391 million resulting in a decrease in the available cash balance from \$1.517 billion at the beginning of the fiscal year to \$1.126 billion at the end of June.

Compared to last fiscal year, total grant spending from the General Funds has increased \$933 million or 6.4%. Public Aid grant spending, which is for medical assistance, increased \$452 million or 9.6% over the prior year. The \$452 million increase reflects a nationwide trend in increasing medical costs and accounts for 48.4% of the increase in total grants and 32.0% of the increase in total spending. Grant spending by the Department of Human Services is up \$133 million or 5.4% over the past fiscal year and awards and grants spending by the State Board of Education is up \$122 million or 2.6% over last year. While these three agencies recorded the largest dollar increase in grant spending and collectively accounted for 75.8% of the total increase in awards and grants, Teachers Retirement had the largest percentage increase of any agency at 13.0%.

Spending for operations totaled \$6.631 billion for the fiscal year, \$344 million (5.5%) higher than comparable expenditures last year. Higher education operations are up 6.9% or \$108 million, while all other operations increased \$236 million (5.0%).

## Cash Balances Continue Decline in July

The General Funds cash balance at the end of July was \$916 million, \$210 million or 18.7% lower than at the end of June. All of the decline can be traced to the General Revenue Fund, which dropped \$365 million or 53.4% to \$318 million. The school funds increased by \$155 million.

The decline in the General Funds balance can be attributed to poor revenue performance. Despite the fact that there was one extra receipting day this July as compared to last July, revenues declined by \$99 million or 5.9%. State sources of revenue were down \$69 million or 4.9% while federal revenues declined \$30 million or 10.5%.

July spending of \$1.800 billion is \$64 million

*COVER STORY continued page 16*

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

	Twelve Months			
	June 2001	FY 2001	Change From Prior Year	
			\$	%
<b>Total General Funds</b>				
Available Balance	\$ 750	\$ 1,517	\$ 166	12.3 %
Revenues	2,603	24,106	856	3.7
Expenditures	2,227	24,497	1,413	6.1
Ending Balance	\$ 1,126	\$ 1,126	\$ (391)	(25.8) %
<b>General Revenue Fund</b>				
Available Balance	\$ 327	\$ 997	\$ (19)	(1.9) %
Revenues	2,292	20,729	743	3.7
Expenditures	1,936	21,043	1,038	5.2
Ending Balance	\$ 683	\$ 683	\$ (314)	(31.5) %
<b>Common School Special Account Fund</b>				
Available Balance	\$ 70	\$ 69	\$ 1	1.5 %
Revenues	128	1,481	(18)	(1.2)
Expenditures	132	1,484	(14)	(0.9)
Ending Balance	\$ 66	\$ 66	\$ (3)	(4.3) %
<b>Education Assistance Fund</b>				
Available Balance	\$ 325	\$ 415	\$ 205	97.6 %
Revenues	110	1,119	137	14.0
Expenditures	80	1,179	402	51.7
Ending Balance	\$ 355	\$ 355	\$ (60)	(14.5) %
<b>Common School Fund</b>				
Available Balance	\$ 28	\$ 36	\$ (21)	(36.8) %
Revenues	554	3,178	100	3.2
Expenditures	561	3,193	94	3.0
Ending Balance	\$ 21	\$ 21	\$ (15)	(41.7) %

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

**GENERAL FUNDS REVENUES**  
(Dollars in Millions)

	Twelve Months			
	June 2001	FY 2001	Change From Prior Year	
			\$	%
<b>Revenues:</b>				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 705	\$ 7,996	\$ 310	4.0 %
Corporate	115	1,036	(201)	(16.2)
Total, Income Taxes	\$ 820	\$ 9,032	\$ 109	1.2 %
Sales Taxes	515	5,958	(69)	(1.1)
Other Sources:				
Public Utility Taxes	93	1,146	30	2.7
Cigarette Taxes	33	400	0	0.0
Inheritance Tax (gross)	36	361	13	3.7
Liquor Gallonage Taxes	11	124	(4)	(3.1)
Insurance Taxes and Fees	48	246	37	17.7
Corporation Franchise				
Tax and Fees	16	146	8	5.8
Investment Income	18	274	41	17.6
Cook County IGT	23	245	0	0.0
Other	234	441	209	90.1
Total, Other Sources	\$ 512	\$ 3,383	\$ 334	11.0 %
Total, Cash Receipts	\$ 1,847	\$ 18,373	\$ 374	2.1 %
Transfers In:				
Lottery Fund	\$ 49	\$ 501	\$ (14)	(2.7) %
State Gaming Fund	50	460	130	39.4
Protest Fund	0	9	2	28.6
Other Funds	71	443	(64)	(12.6)
Total, Transfers In	\$ 170	\$ 1,413	\$ 54	4.0 %
Total, State Sources	\$ 2,017	\$ 19,786	\$ 428	2.2 %
Federal Sources:				
Cash Receipts	\$ 567	\$ 4,205	\$ 449	12.0 %
Transfers In	19	115	(21)	(15.4)
Total, Federal Sources	\$ 586	\$ 4,320	\$ 428	11.0 %
Total, Revenues	\$ 2,603	\$ 24,106	\$ 856	3.7 %

**GENERAL FUNDS ANALYSIS OF EXPENDITURES**  
(Dollars in Millions)

	Twelve Months			
	June 2001	FY 2001	Change From Prior Year	
			\$	%
<b>Expenditures:</b>				
Awards and Grants:				
Public Aid	\$ 505	\$ 5,157	\$ 452	9.6 %
Elem. & Sec. Education:				
State Board of Education	764	4,874	122	2.6
Teachers Retirement	61	732	84	13.0
Total, Elem. & Sec. Education	\$ 825	\$ 5,606	\$ 206	3.8 %
Human Services	178	2,618	133	5.4
Higher Education	16	798	42	5.6
All Other Grants	88	1,413	100	7.6
Total, Awards and Grants	\$ 1,612	\$ 15,592	\$ 933	6.4 %
Operations:				
Other Agencies	\$ 423	\$ 4,956	\$ 236	5.0 %
Higher Education	42	1,675	108	6.9
Total, Operations	\$ 465	\$ 6,631	\$ 344	5.5 %
Transfers Out	\$ 128	\$ 2,216	\$ 187	9.2 %
All Other	\$ 5	\$ 57	\$ (42)	(42.4) %
Vouchers Payable Adjustment	\$ 17	\$ 1	\$ (9)	N/A
Total, Expenditures	\$ 2,227	\$ 24,497	\$ 1,413	6.1 %

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

	Twelve Months			
	June 2001	FY 2001	Change From Prior Year	
			\$	%
<b>Personal Services:</b>				
Regular Positions	\$ 199	\$ 2,358	\$ 106	4.7 %
Other Personal Services	22	255	13	5.4
Total, Personal Services	\$ 221	\$ 2,613	\$ 119	4.8 %
Contribution Retirement	40	481	27	5.9
Contribution Social Security	14	166	7	4.4
Contribution Group Insurance	69	650	61	10.4
Contractual Services	35	512	30	6.2
Travel	2	24	(1)	(4.0)
Commodities	9	129	(3)	(2.3)
Printing	1	9	(1)	(10.0)
Equipment	6	46	(1)	(2.1)
Electronic Data Processing	3	47	0	0.0
Telecommunications	6	52	2	4.0
Automotive Equipment	1	18	2	12.5
Other Operations	58	1,884	102	5.7
Total, Operations	\$ 465	\$ 6,631	\$ 344	5.5 %

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

	Twelve Months			
	June 2001	FY 2001	Change From Prior Year	
			\$	%
<b>State Board of Education:</b>				
General State Aid	\$ 504	\$ 2,995	\$ 3	0.1 %
Categoricals	260	1,879	119	6.8
Other	0	0	0	0.0
Public Aid	505	5,157	452	9.6
Human Services	178	2,618	133	5.4
Higher Education:				
Student Assistance Commission	13	397	31	8.5
Community College Board	1	316	18	6.0
Other	2	85	(7)	(7.6)
Teacher's Retirement	61	732	84	13.0
Children and Family Services	23	636	(6)	(0.9)
Aging	23	225	32	16.6
Revenue	1	92	2	2.2
All Other	41	460	72	18.6
Total, Awards and Grants	\$ 1,612	\$ 15,592	\$ 933	6.4 %

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

	July 2000	July 2001	Change From Prior Year	
			\$	%
<b>Total General Funds</b>				
Available Balance	\$ 1,517	\$ 1,126	\$ (391)	(25.8) %
Revenues	1,689	1,590	(99)	(5.9)
Expenditures	1,864	1,800	(64)	(3.4)
Ending Balance	\$ 1,342	\$ 916	\$ (426)	(31.7) %
<b>General Revenue Fund</b>				
Available Balance	\$ 997	\$ 683	\$ (314)	(31.5) %
Revenues	1,433	1,336	(97)	(6.8)
Expenditures	1,778	1,701	(77)	(4.3)
Ending Balance	\$ 652	\$ 318	\$ (334)	(51.2) %
<b>Common School Special Account Fund</b>				
Available Balance	\$ 69	\$ 66	\$ (3)	(4.3) %
Revenues	128	128	0	0.0
Expenditures	0	5	5	0.0
Ending Balance	\$ 197	\$ 189	\$ (8)	(4.1) %
<b>Education Assistance Fund</b>				
Available Balance	\$ 415	\$ 355	\$ (60)	(14.5) %
Revenues	87	77	(10)	(11.5)
Expenditures	28	47	19	67.9
Ending Balance	\$ 474	\$ 385	\$ (89)	(18.8) %
<b>Common School Fund</b>				
Available Balance	\$ 36	\$ 21	\$ (15)	(41.7) %
Revenues	40	55	15	37.5
Expenditures	57	52	(5)	(8.8)
Ending Balance	\$ 19	\$ 24	\$ 5	26.3 %

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

**GENERAL FUNDS REVENUES**  
(Dollars in Millions)

	July 2000	July 2001	Change From Prior Year	
			\$	%
<b>Revenues:</b>				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 488	\$ 486	\$ (2)	(0.4) %
Corporate	21	23	2	9.5
Total, Income Taxes	\$ 509	\$ 509	\$ 0	0.0 %
Sales Taxes	516	513	(3)	(0.6)
Other Sources:				
Public Utility Taxes	68	62	(6)	(8.8)
Cigarette Taxes	33	33	0	0.0
Inheritance Tax (gross)	37	22	(15)	(40.5)
Liquor Gallonage Taxes	8	10	2	25.0
Insurance Taxes and Fees	5	2	(3)	(60.0)
Corporation Franchise Tax and Fees	15	7	(8)	(53.3)
Investment Income	21	18	(3)	(14.3)
Cook County IGT	54	54	0	0.0
Other	17	14	(3)	(17.6)
Total, Other Sources	\$ 258	\$ 222	\$ (36)	(14.0) %
Total, Cash Receipts	\$ 1,283	\$ 1,244	\$ (39)	(3.0) %
Transfers In:				
Lottery Fund	\$ 19	\$ 30	\$ 11	57.9 %
State Gaming Fund	50	40	(10)	(20.0)
Protest Fund	1	1	0	0.0
Other Funds	49	18	(31)	(63.3)
Total, Transfers In	\$ 119	\$ 89	\$ (30)	(25.2) %
Total, State Sources	\$ 1,402	\$ 1,333	\$ (69)	(4.9) %
Federal Sources:				
Cash Receipts	\$ 284	\$ 257	\$ (27)	(9.5) %
Transfers In	3	0	(3)	(100.0)
Total, Federal Sources	\$ 287	\$ 257	\$ (30)	(10.5) %
Total, Revenues	\$ 1,689	\$ 1,590	\$ (99)	(5.9) %

**GENERAL FUNDS ANALYSIS OF EXPENDITURES**  
(Dollars in Millions)

	July 2000	July 2001	Change From Prior Year	
			\$	%
<b>Expenditures:</b>				
Awards and Grants:				
Public Aid	\$ 433	\$ 444	\$ 11	2.5 %
Elem. & Sec. Education:				
State Board of Education	39	47	8	20.5
Teachers Retirement	62	68	6	9.7
Total, Elem. & Sec. Education	\$ 101	\$ 115	\$ 14	13.9 %
Human Services	257	306	49	19.1
Higher Education	10	18	8	80.0
All Other Grants	126	163	37	29.4
Total, Awards and Grants	\$ 927	\$ 1,046	\$ 119	12.8 %
Operations:				
Other Agencies	\$ 417	\$ 398	\$ (19)	(4.6) %
Higher Education	96	109	13	13.5
Total, Operations	\$ 513	\$ 507	\$ (6)	(1.2) %
Transfers Out	\$ 443	\$ 250	\$ (193)	(43.6) %
All Other	\$ 3	\$ 5	\$ 2	66.7 %
Vouchers Payable Adjustment	\$ (22)	\$ (8)	\$ 14	N/A
Total, Expenditures	\$ 1,864	\$ 1,800	\$ (64)	(3.4) %

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

	July 2000	July 2001	Change From Prior Year	
			\$	%
<b>Personal Services:</b>				
Regular Positions	\$ 192	\$ 202	\$ 10	5.2 %
Other Personal Services	21	22	1	4.8
Total, Personal Services	\$ 213	\$ 224	\$ 11	5.2 %
Contribution Retirement	39	42	3	7.7
Contribution Social Security	14	15	1	7.1
Contribution Group Insurance	53	25	(28)	(52.8)
Contractual Services	35	42	7	20.0
Travel	2	2	0	0.0
Commodities	6	9	3	50.0
Printing	0	1	1	N/A
Equipment	9	4	(5)	(55.6)
Electronic Data Processing	5	6	1	20.0
Telecommunications	3	4	1	33.3
Automotive Equipment	1	2	1	100.0
Other Operations	133	131	(2)	(1.5)
Total, Operations	\$ 513	\$ 507	\$ (6)	(1.2) %

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

	July 2000	July 2001	Change From Prior Year	
			\$	%
<b>State Board of Education:</b>				
General State Aid	\$ 0	\$ 6	\$ 6	NA %
Categoricals	39	40	1	2.6
Other	0	1	1	NA
Public Aid	433	444	11	2.5
Human Services	257	306	49	19.1
Higher Education:				
Student Assistance Commission	4	2	(2)	(50.0)
Community College Board	0	6	6	NA
Other	6	10	4	66.7
Teacher's Retirement	62	68	6	9.7
Children and Family Services	47	37	(10)	(21.3)
Aging Revenue	17	20	3	17.6
All Other	5	19	14	280.0
Total, Awards and Grants	\$ 927	\$ 1,046	\$ 119	12.8 %

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