Fiscal Focus

QUARTERLY • OCTOBER/NOVEMBER/DECEMBER 2003 ISSUE

DANIEL W. HYNES

STATE OF ILLINOIS COMPTROLLER

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

Public Education in Illinois

With more than 150,000 teachers, administrators and other school personnel charged with educating over two million students, public elementary and secondary education touches nearly every citizen. As the most widely debated function of state government, funding our public education system is a never-ending topic of discussion and, as evidenced by the figures contained in this report, has become the number one priority of lawmakers and budgetcrafters in Illinois.

Elementary and Secondary Education Funding

In the 2002-03 school year, nearly $19.0 billion in revenues from state, local and federal sources were directed to elementary and secondary education. The $19.0 billion receipted was almost $500 million or 2.7% higher than the $18.5 billion receipted in the 2001-02 school year and $8.0 billion or 72.7% higher than during the 1993-94 school year ten years ago.

Local revenues, which are primarily from property taxes, continue to be the largest source of funding for public elementary and secondary education. For the 2002-03 school year local sources provided $10.1 billion or 53.4% of total revenues. State sources provided $6.9 billion or 36.3% while federal sources contributed just under $2.0 billion or 10.3%.

Compared to ten years ago, the state's share of education funding has increased from 32.9% to 36.3%. As shown on the graph on page 5, the state's share increased dramatically during good

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FROM THE COMPTROLLER

Dear Readers:

This issue of *Fiscal Focus* reviews elementary and secondary education in Illinois, a topic that was last examined a few years ago. Since that time, the economy has suffered through a recession and has yet to return to its previous level of performance. Despite the fact that state revenues have declined for two years in a row, Illinois lawmakers have continued to make elementary and secondary education a high priority.

Although education spending declined by $41 million or 0.1% in fiscal year 2003, the share of the general funds state budget devoted to elementary and secondary education increased three percentage points over the past ten years. In fiscal year 2003, 25.6% of General Funds spending was dedicated to elementary and secondary education. Based on fiscal year 2003 general funds spending of over $24 billion, the three percentage point increase equates to more than $700 million in additional dollars. For fiscal year 2004, elementary and secondary education appropriations are $382 million or 6.2% higher than the previous year.

Important as state funding is to education, issues related to academic performance and the federal No Child Left Behind Act (NCLB) are gaining attention. In an attempt to create more accountability, NCLB raises the performance stakes for schools in Illinois and promises opportunities for students attending "failing" schools. The challenges that Illinois faces as it complies with the Act may well change the way education is viewed and funded by lawmakers in the future.

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

Sincerely,

Daniel W. Hynes
Comptroller

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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.

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

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Printed by Authority of the State of Illinois 11/1/03 - 3,100, Job 37520

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Fiscal $marts

School Performance Under Scrutiny

Efforts to increase accountability in state government services are particularly evident in the area of education. Public elementary and secondary schools in Illinois are facing increased scrutiny both financially and academically. The financial watch list started in the 1960's, and in 1992, an academic watch list was added. Furthermore, schools must now deal with the federal No Child Left Behind law which adds new requirements to schools that are deemed as failing academically.

Financial Watch List

The Illinois School Code provides the State Board of Education (SBE) with the authority to monitor and assess the financial health of each public school district. For many years the method used to measure this health was entitled the Financial Watch List and Financial Assurance and Accountability System (FAAS). FAAS relied on a single factor, the Fund Balance to Revenue Ratio, to assess the relative financial well being of school districts.

In 2002, the SBE revised the system in an attempt to come up with a more accurate measure of the financial health of districts. The new system includes five indicators: the previous Fund Balance to Revenue Ratio plus four additional measures, including Expenditures to Revenue Ratio, Days Cash on Hand, Percent of Short-Term Borrowing Ability Remaining, and Percent of Long-Term Debt Margin Remaining. These five indicators are individually scored on a scale from one to four (four being the high-

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HOW Illinois Stacks Up

State Support for Education Varies Widely

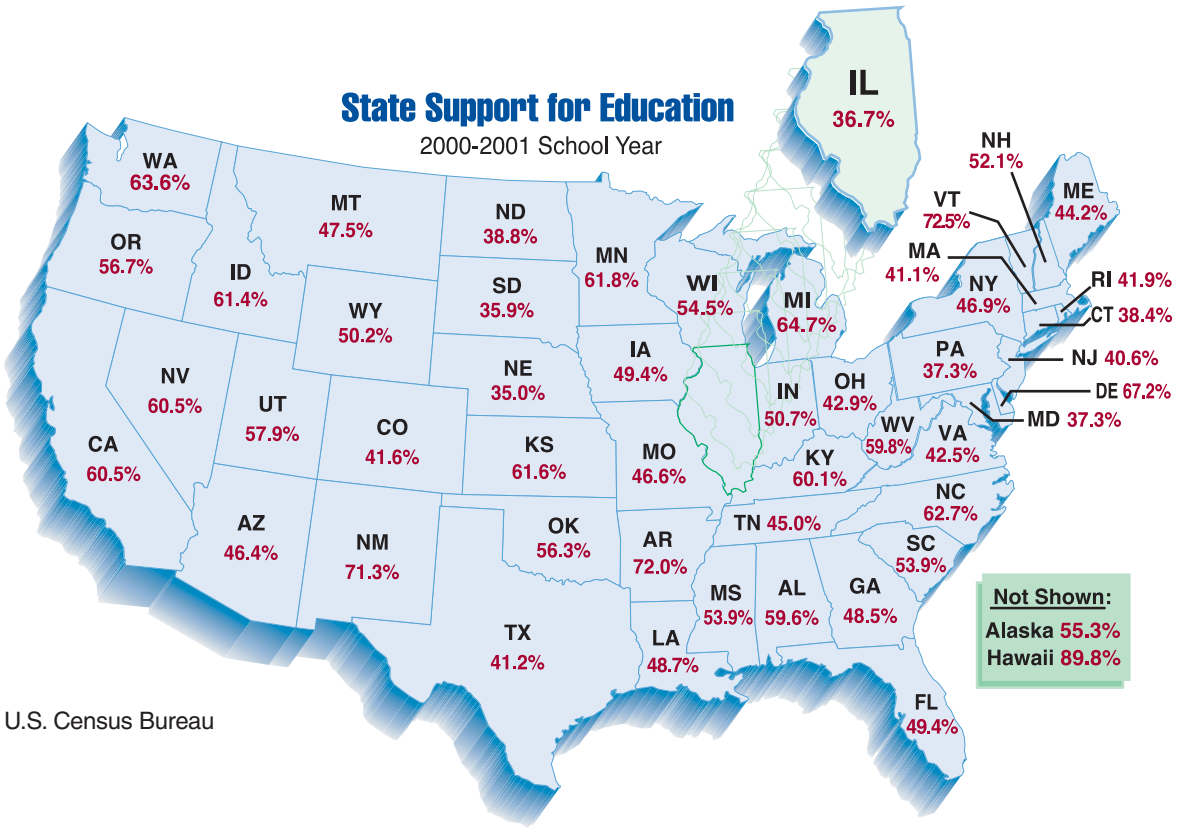
Financing public education (K-12) is a shared burden between the state government and local school districts in every state. About 93% of school district revenues come from state and local governments, the latter relying largely on property taxes. The remaining 7% comes from the federal government.

Based on data from a survey of state and local governments and school districts, the Census Bureau recently reported on the financial sources of school funding for the 2000-01 school year. According to the report, Illinois' percentage of state support was among the lowest, ranking 48th among the states. Illinois' state government share of school funding was 36.7%, which was less than the national average of 49.9%. The five states that had the highest state share were Hawaii (89.8%), Vermont (72.5%), Arkansas (72%), New Mexico (71.3%) and Delaware (67.2%). Among neighboring states, the state government share was 64.7% in Michigan, 61.8% in Minnesota, 54.5% in Wisconsin, 50.7% in Indiana, 49.4% in Iowa, and 46.6% in Missouri.

Conversely, Illinois' local school districts support a larger share of the cost of K-12 education than districts in other states. Compared to the national average of 43%, Illinois' local government share of 55.5% ranked Illinois 6th. Nebraska with local support of 57.7%, Connecticut (57.5%), Maryland (56.8%), Pennsylvania (56.3%), and New Jersey (55.6%) rounded out the top five. Local government shares for the neighboring states were Missouri with 46.8%, Iowa (44.5%), Indiana (44.3%), Wisconsin (40.7%), Minnesota (33.5%) and Michigan (28.6%).

The national average for the federal government share was 7.1% and Illinois ranked 23rd with 7.8%. The five states that had the most federal assistance were Alaska with 17.3%, New Mexico (13.8%), Mississippi (13.7%), North Dakota (13.2%) and South Dakota (11.9%).

Education spending also varied widely among the states when total school spending per pupil was examined. New York and New Jersey topped the list, each spending nearly $11,000 per pupil. The other states in the top five were Connecticut ($9,236), Alaska ($9,165) and Massachusetts ($9,038). Illinois ranked 15th, spending $7,585 per pupil, which was higher than the national average of $7,284. Illinois' spending exceeded spending in all neighboring states except Wisconsin ($8,158). The per pupil expenditures for the other nearby states were: Michigan ($8,029), Minnesota ($7,447), Indiana ($7,287), Iowa ($6,912), and Missouri ($6,593). ■



Source: U.S. Census Bureau

Fiscal Smarts concluded from page 2

est or best), weighted, and added together to produce a financial profile score for each district.

The change to the new system of indicators immediately increased the number of districts identified as facing financial difficulties. The 2001 financial watch list included 11 school districts, but in 2002, 100 districts scored low enough for the financial watch list and 183 districts scored in the financial early warning list.

Although the SBE considers the new five-indicator system to be more accurate, a number of schools districts have disagreed. While some local officials have claimed that one-time extraordinary factors or fiscal year timing issues can skew the results, others have complained that the methods of calculating some of the indicators are flawed.

According to the SBE, if districts are in financial trouble, regionally-based financial consultants will be available to help develop sound financial practices. The remedy is the creation of a financial oversight panel and the availability of emergency state aid. In extreme cases, local school boards can be dissolved. This recently happened in Venice when the school board failed to submit a budget deemed acceptable by the SBE.

Academic Watch List

The School Code also provides the SBE with the authority to monitor and assess the academic performance of each public school district. In 1992, legislation was enacted to create the Academic Watch List (AWL) as a means to increase the accountability of public schools. The law was amended in 1996 to include an Academic Early Warning List (AEWL) in an attempt to identify and head off future problems. Any school on the AEWL or the AWL must submit a two-year School Improvement Plan to the SBE for approval. The SBE has a number of technical and financial resources to provide to schools in an attempt to keep them off, or remove them from, the AWL.

Federal Government Involvement

The academic performance of schools and school districts has again come to the forefront with passage of the federal No Child Left Behind Act of 2001 (NCLB).

The NCLB law adds a federal dimension to academic performance by requiring that all students be proficient or better in reading and mathematics by 2013-2014.

School District Financial Profiles

	Score *
Financial Recognition	3.54 - 4.00
Financial Review	3.08 - 3.53
Financial Early Warning	2.62 - 3.07
Financial Watch	1.00 - 2.61

* The highest score a district may receive is 4.00 and the lowest score possible is 1.00.

Source: State Board of Education.

Between now and then, schools are required to make adequate yearly progress. Although this is an admirable goal, the sanctions for failure are controversial. States have the authority to establish a timeline for adequate yearly progress to be made, but if schools do not make adequate yearly progress in student achievement, they will face certain sanctions.

However, adequate yearly progress will be measured by groups of students rather than by schools. The NCLB requires the calculation of adequate yearly progress for groups of 40 or more students such as Whites, Black, Hispanics, Native Americans, students with disabilities, economically disadvantaged students, and so forth. If any group fails to make adequate yearly progress, the whole school is deemed to have failed.

If a school does not make adequate yearly progress for two years, it will be placed on the AEWL and parents must be notified that students can transfer to a better performing school (school choice). If a school falls short for three years, students can qualify for special services such as tutoring. Schools failing to make progress for four years in a row will be placed on Illinois' AWL, and after five years of inadequate progress schools can be forced to replace employees or extend the school year.

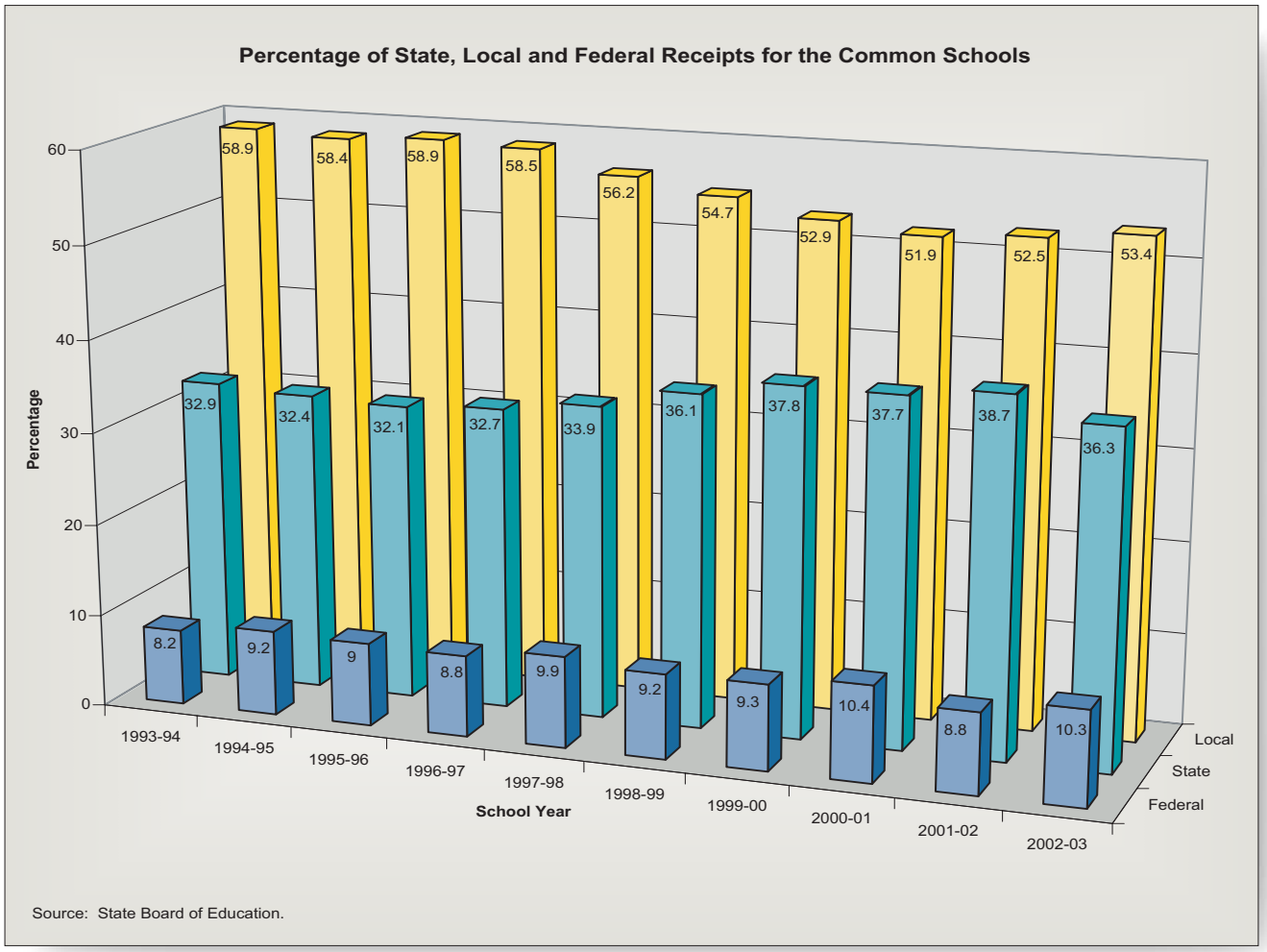
The ability to transfer to a better school depends on the availability of openings. Chicago public school officials have said that 270,000 students are eligible for school choice transfers, but only 1,097 spots are available. Furthermore, because of the lack of funds, only about 20 percent of the students eligible for tutoring will receive those services.

On November 4, SBE released the 2003 Illinois State Report Card that contains results from the latest student achievement tests. Out of 3,919 schools in Illinois, 2,312 are considered Title I schools (i.e., they received federal Title I grant funds), and of this latter group, 581 schools were in school improvement status meaning that they failed to make adequate yearly progress. The 581 schools represent 25.1% of the Title 1 schools and 14.8% of all schools. This amount is in an increase of 10.4% in the number of these schools since 2002.

Accountability is becoming a fact of life. Taxpayers deserve to know if their tax dollars are being spent wisely, especially during difficult economic times that encourage government budgets to be trimmed. But the issue that needs to be resolved is how best to implement accountability. ■

Cover Story continued from front page

fiscal times in the mid to late 1990's and on into the early part of the next decade reaching a high of 38.7% in school year 2001-02. While the federal share has been relatively consistent over the last ten years ranging from 8.2% to 10.3%, the local share has declined as the state share increased. In the 1993-94 school year, 58.9% of public education revenues were derived from local sources. By the 2002-03, the local share had declined by 5.5 percentage points to 53.4%. Just as robust economic conditions allowed the state share to increase, property tax caps contributed to the decline in the percentage of local revenues.



Elementary and Secondary Education Spending

Approximately 90% of state spending for public elementary and secondary education comes from the state's General Funds which include the General Revenue Fund (the state's main operating fund) and three funds specifically earmarked for education (Education Assistance Fund, Common School Fund and the General Revenue-Common School Special Account Fund). Fiscal year 2003 General Funds public elementary and secondary education spending by the State Board of Education and the Downstate and Chicago Teacher's Retirement systems totaled $6.121 billion, $2.645 billion or 76.1% more than fiscal year 1994 expenditures of $3.476 billion.

The growth in elementary and secondary education spending reflects the fiscal condition of the state. Between fiscal years 1994 and 1996 General Funds spending increased by an average of $191 million or 5.3% as the state slowly emerged from its fiscal difficulties of the early 1990's. From fiscal year 1996 through fiscal year 2002 the average growth was $384 million or 8.2% reflecting the state's strong financial position. In fiscal year 2003, spending actually declined by $41 million or 0.1% as the state was in the midst of its worst fiscal crisis in history. The $1.386 billion growth in fiscal years 1998 through 2000 accounts for 52.4% of the total growth in General Funds elementary and secondary education spending over the last ten years.

The substantial increases in General Funds spending reveal that elementary and secondary education has become a higher priority for lawmakers. In fiscal year 1994, 22.6% of General Funds expenditures were dedicated to public education. This percentage decreased to 21.3% in fiscal year 1996 before increasing ever year thereafter except for fiscal year 2001. In fiscal year

COVER STORY continued page 10

LOCAL Government Line

Words of Wisdom Regarding GASB 34 Implementation

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 that calls for an entirely new accounting/financial reporting model by which governmental entities must maintain and report their finances. This new model establishes new standards for reporting and maintaining financial statements and requires a management discussion and analysis (MD & A) and/or required supplementary information (RSI). During the next two years, GASB 34 will affect every unit of local government in Illinois.

Over the past year, the Office of the Comptroller has received numerous calls from local government officials and accounting professionals. The following are the top inquiries: Why do I have to implement GASB 34? How and when should GASB 34 be implemented? How much will it cost to convert to GASB 34? Will infrastructure have to be reported? What is an MD & A? Who can help implement GASB 34?

We consulted a few sources such as local government officials and accounting professionals for some words of wisdom regarding implementation of GASB 34.

Jim Donelan, Associate Director, Township Officials of Illinois

"The Township Officials of Illinois (TOI) recommends that township officials meet with their auditors now. Although the effective date for most townships is the fiscal year ending March 31, 2005, it will help the transition to discuss GASB 34 and to ask for guidance concerning new methods of tracking or providing information to your CPA. Township officials should read implementation literature to have a general understanding of GASB 34 prior to visiting with their auditor. Also, we recommend attending upcoming GASB 34 educational sessions during our Annual Educational Conference in Springfield, November 9-10."

Bill Stafford, Finance Director, City of Evanston

"Evanston is implementing early and it has not been as difficult as people expected. One of the most helpful tips I offer is to access the websites of government finance organizations. By simply logging on to their websites you can find a tremendous amount of information. The Governmental Accounting Standards Board's (GASB) website provides examples and interviews of local governments who have implemented GASB 34. They will also send units of local government a complimentary copy of the GASB 34 regulations. The Government Finance Officers Association's (GFOA) and Illinois Government Finance Officers Association's (IGFOA) website provides examples of local governments in Illinois that have implemented GASB 34. The information contained on these websites will be extremely helpful to local governments preparing for implementation of GASB 34."

Bob Thoma, Partner, McGladrey & Pullen

"Plan the plan and get a [GASB] 34 transition team together. Each transition area needs a plan and probably at least a slightly different team for: fixed assets, depreciation, infrastructure, I/T capabilities, and to make sure the budgetary line items will support project codings required by GASB 34. For advice, common knowledge or even for a friendly ear to bounce thoughts or questions off of, look to surrounding units or membership groups and find others that have either gone through or are in the process of going thru a GASB 34 transition."

Bob Guess, Finance Director, Village of Channahon

"Establish a good working relationship with a team of auditors that have experience with GASB 34 implementation. There is a lot of planning, organizing and good old-fashioned work that should be done prior to implementing, but it will not be as bad as you think. Join and participate in the activities of various organizations, such as IGFOA and the Illinois Municipal Treasurer's Association, that provide support, educational seminars and

LOCAL GOVERNMENT LINE continued page 14

CEMETERY Care Corner

Consumer Education Program Initiated

In the spring of 2003, Comptroller Hynes launched a consumer education program for Illinois citizens who wish to purchase pre-need cemetery and funeral home services. Pre-need services are defined as the setting aside of funds for final arrangements well in advance of death. Since this can often be a complicated process, the Comptroller's Office has created a step-by-step guide to making an informed decision.

This guide for consumers consists of a video and brochure designed to educate families, particularly those with low incomes, about the process of making final arrangements for a loved one. The first point illustrated is that the cemetery and the funeral home are two separate entities, each of which should present the family with a separate contract. The roles of the two entities are explained clearly so that the family knows what to expect from each.

The funeral home is responsible for:

- Receiving and preparing the body for viewing
- Conducting the viewing services
- Providing support and counseling to the bereaved

The cemetery is responsible for:

- Burying the body
- Keeping cemetery records
- Maintaining cemetery grounds

Next, the video and brochure walk the family through the steps of making the actual arrangements. From the funeral home, a family should ask to see the business license issued by the Office of the Comptroller authorizing the staff to sell pre-need goods and services. Once it is established that the funeral home is licensed by the Comptroller's Office, families should ask to see a price list for all merchandise and services. This will ensure that prices are not altered when the contract is presented. Families should insist on a written contract, and should keep a copy for their records.

Once the funeral home portion of the arrangements is complete, the consumer video and brochure move on to the cemetery. Once again, the family is taken step-by-step through the entire process, beginning with a visit to the cemetery. Families should ask to see various grave locations in several price ranges so that they know where their loved one will be laid to rest. As with the funeral home, the cemetery should provide a price list covering all merchandise and services. Before a contract is signed, families should ask the cemetery staff if a gravesite service will be permitted. If not, the cemetery staff should provide a burial schedule so that it is clear when a loved one will be buried. Once the contract is complete, the family should receive a signed copy along with a cemetery map and a general description of the grave site that has been purchased. If families are purchasing an internment rite, they should ask the staff how long it will be in effect and whether the cemetery can reuse the grave space. These questions can be answered by obtaining a copy of the cemetery rules and regulations.

In addition to spelling out in simple terms what families need to know before beginning this process, the consumer education program provides resources for assistance in funding pre-need funeral and cemetery arrangements. Information is offered regarding financial assistance for those who qualify for public aid, as well as those who were victims of a homicide. The video and brochure also explain the legalities of funding pre-need contracts through insurance policies, and list additional funding options through the Social Security Administration and Department of Veterans' Affairs. Should additional information be needed, the address and toll-free number for the Comptroller's Cemetery Care and Burial Trust Division are also included. The video and brochure are available from the Comptroller's Office in both English and Spanish versions. For more information or to request a copy, please call the Cemetery Care Division at (312) 814-2451. ■

FOCUS On Revenue

Revenue Sources Dedicated for Education

There has been much discussed and written about gambling revenues' support of education. While gambling is an important source of revenue for education, it is not the largest source of revenue and has little impact in determining education funding levels. Over the past ten years, even with the expansion and increased taxes on riverboat gambling, the share of education funding provided by gambling has remained fairly consistent. This was due in part to growth of major tax sources and tax increases that impacted the amounts dedicated to education.

The majority of state support for elementary and secondary education comes from the Common School Fund and the Education Assistance Fund, both of which receive revenues from gambling. These two funds provide for the payment of general state aid to local schools and for teachers' retirement. Dedicated revenues are not sufficient to support spending levels, especially in the Common School Fund, so the General Revenue Fund transfers monies for any funding deficiencies. It should be noted that the Education Assistance Fund also supports higher education and that over the years these two funds have also been used to fund other education grants.

Since education spending levels have increased over the past ten years in excess of revenue increases, General Revenue Fund transfers account for a larger percentage of education revenues.

Common School Fund Revenues
(Dollars in Millions)

	Fiscal Year 1994	Fiscal Year 2003	Change Amount	Change Percent
Sales Tax Transfers	$ 1,084.9	$ 1,482.9	$ 398.0	36.7 %
Lottery Fund Transfers	552.1	540.3	(11.8)	(2.1)
Bingo Tax	3.7	2.2	(1.5)	(40.5)
Pull Tabs & Jar Games Tax and Licenses	3.3	3.8	0.5	15.2
Cigarette Taxes	42.5	137.3	94.8	223.1
Public Utility Tax	12.0	101.7	89.7	747.5
Other	0.7	0.8	0.1	14.3
GRF Transfers	468.4	975.1	506.7	108.2
TOTAL	$ 2,167.6	$ 3,244.1	$ 1,076.5	49.7 %

Common School Fund

While the Common School Fund (CSF) receives revenues from a variety of sources, transfers from the State Lottery Fund are probably the most well known of these sources. In fiscal year 2003, lottery transfers totaled $540.3 million, accounting for 16.7% of total CSF revenues, and were the third largest source of revenues into the fund. By far, the major source of revenue into the CSF for the year was the sales tax transfer of $1.483 billion, or 45.7% of total revenues. The General Revenue-Common School Special Account Fund receives 25% of the state's share of sales tax collections and can only transfer monies to the CSF. Transfers from the General Revenue Fund are the second largest source of revenue to the CSF, with $975.1 million transferred in fiscal year 2003, representing 30.1% of total revenues.

Education Assistance Fund Revenues
(Dollars in Millions)

	Fiscal Year 1994	Fiscal Year 2003	Change Amount	Change Percent
Income Tax	$ 422.5	$ 589.8	$ 167.3	39.6 %
Gaming Fund Transfers	118.0	553.5	435.5	369.1
Other	0.3	3.3	3.0	N/A
GRF Transfers	0.0	0.0	0.0	N/A
TOTAL	$ 540.8	$ 1,146.6	$ 605.8	112.0 %

The remaining 7.5% of revenues to the CSF are dedicated receipts, which are deposited directly into the fund. These sources include public utility taxes, cigarette taxes, bingo taxes, licenses and taxes from pull tabs and jar games, investment income, and other miscellaneous sources.

FOCUS ON REVENUE continued, page 13

FOCUS On Spending

Expenditures for School Construction

The School Construction Program was created in December 1997 to address two problems: districts in older communities that need to replace aging classrooms and districts in expanding communities that need to construct additional classrooms to ease overcrowding. It is the first state school construction program in more than two decades. State grant monies are largely from School Construction General Obligation bonds. The key financial factor was a $1.1 billion increase in the School Construction Act bond authorization. Later authorizations added $1.0 billion and $930 million for this popular program.

School Construction Grants
(Millions)

	Fiscal Year						
	1998	1999	2000	2001	2002	2003	Total
Downstate							
State Share	$3.9	$266.8	$71.9	$214.0	$351.5	$150.5	$1,058.6
Local Share	1.7	208.3	40.6	154.9	247.1	121.3	774.0
Suburbs							
State Share	22.8	333.6	22.4	179.8	238.2	244.0	1,040.7
Local Share	8.0	393.7	16.3	246.5	291.4	321.2	1,277.0
Chicago							
State Share	6.0	148.1	25.9	98.4	147.8	98.5	524.7
Local Share	11.1	275.1	48.0	182.7	274.6	183.0	974.5
Total							
State Share	32.7	748.6	120.1	492.2	737.5	492.9	2,624.1
Local Share	20.9	877.1	104.9	584.1	813.0	625.4	3,025.5

Source: Capital Development Board

The program is jointly administered by the Capital Development Board (CDB) and the State Board of Education (SBE). SBE is in charge of the academic and financial side of the program, developing eligibility standards, reviewing applications, performing the calculations to determine the state and local shares of project costs, and issuing the grant entitlements. CDB specializes in the construction aspects of the grant process, developing construction standards, approving construction costs, awarding construction grants, and preparing payment schedules for approved projects.

School Infrastructure Fund Receipts
(Millions)

Fiscal Year	Telecommunications Tax	Cigarette Tax	GRF Transfer	Total
1998	$35.2	…	…	$35.2
1999	101.5	…	…	101.5
2000	108.5	…	30.0	138.5
2001	114.9	…	60.0	174.9
2002	110.4	…	…	110.4
2003	89.7	15.0	…	104.7

The priority for approving projects is as follows. First, need due to manmade or natural disasters, followed by overcrowding due to population growth or aging buildings, school district consolidation or annexation, severe and continuing health and safety hazards, need to provide access to disabled individuals, and lastly other unique solutions to facility needs.

As is the case with bonding programs, payments for debt service will be required long after the construction grants have been completed. Debt service is paid from dedicated monies deposited into the School Infrastructure Fund and the General Revenue Fund. The original source of dedicated funds was one-half of the 2% increase in the telecommunications excise tax effective in 1998. This was supplemented by a combined $90 million transfer from the General Revenue Fund in fiscal years 2000 and 2001 and a $5 million monthly contribution from cigarette tax revenues beginning in April 2003. While dedicated telecommunications tax revenues declined from $110 million to $90 between fiscal year 2002 and fiscal year 2003, the first installment of cigarette tax revenue brought in $15 million in fiscal

FOCUS ON SPENDING continued, page 14

2003, 25.6% was dedicated for elementary and secondary education, a full three percentage points higher than ten years earlier. Based on fiscal year 2003 spending of over $24 billion, the three percentage point increase equates to more than $700 million in additional dollars.

The largest State Board of Education spending program is apportionment or general state aid. For fiscal year 2003, the State Board spent $3.142 billion on apportionment grants, an increase of $956 million or 43.7%. Of the $956 million increase in general state aid, $688 million or 72.0% occurred in fiscal years 1999 and 2002. Legislation which established minimum foundation levels of financial support for school districts accounted for a significant portion of the increases in apportionment.

Up until fiscal year 1998, a special equalization formula was used to determine apportionment grants to districts based on average daily attendance guaranteeing each district a minimum amount of resources per student provided the district made a sufficient tax effort. For fiscal year 1998, legislation enacted established foundation levels of financial support that were deemed appropriate for a student to receive an "adequate" education. Those levels were established as $4,100 for fiscal year 1998, $4,225 for 1999, $4,325 for 2000, $4,425 for 2001, $4,560 for 2002 and 2003, and $4,810 for 2004. In subsequent years, the General Assembly will determine the appropriate foundation level with advice from the Education Funding Advisory Board consisting of five members appointed by the Governor.

The fastest growing segment of public education spending is retirement grants. State grants supplement employee contributions and investment income in funding the teacher's retirement systems. Fiscal year 2003 spending for retirement totaled $931 million, $630 million or more than triple fiscal year 1994 spending of $301 million. The $630 million increase in retirement spending accounts for 23.8% of the total increase in elementary and secondary education over the last ten years. This significant increase in retirement grants is due to pension funding legislation that took effect in fiscal year 1996. This legislation provides for a 50-year phase-in period with the ultimate goal of increasing the actuarial funded ratio to 90.0%. The act also provides the Comptroller with continuing appropriation authority for the required employer contributions.

The remainder of grant spending for elementary and secondary education consists primarily of categorical grants. Categorical grants are payments earmarked to school districts for specific purposes such as special education, transportation, early childhood education and reading improvement.

The largest categorical grant program is for special education for the handicapped which includes reimbursements to school districts for approved personnel who perform services in special education programs. Special education grant payments of $633 million in fiscal year 2003 are $299 million or 89.5% higher than fiscal year 1994 payments of $323 million.

The second largest categorical program is transportation, which provides grants to reimburse allowable costs of school dis-

Public Elementary and Secondary Education*
General Funds Expenditures (15 months)
(Dollars in Millions)

	Fiscal Year									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operations	$ 55	$ 69	$ 100	$ 128	$ 134	$ 152	$ 181	$ 236	$ 244	$ 129
Awards and Grants:										
General State Aid	2,186	2,285	2,326	2,378	2,471	2,922	2,983	2,995	3,232	3,142
Retirement	301	300	362	417	494	584	649	732	821	931
Special Education	334	358	406	454	489	512	605	637	656	633
Transportation	235	252	257	258	267	297	377	421	454	438
Early Childhood Education	90	93	104	116	153	154	170	180	183	183
Reading Improvement	44	45	45	45	47	83	83	83	83	79
Bi-lingual Education	52	62	64	54	56	56	56	63	63	60
Vocational Education	48	49	49	49	53	52	47	54	52	52
All Other	131	147	145	243	432	323	377	447	374	474
Total Awards and Grants	3,421	3,591	3,758	4,014	4,462	4,983	5,347	5,612	5,918	5,992
Total, Public Elem. & Sec. Education General Funds Expenditures	3,476	3,660	3,858	4,142	4,596	5,135	5,528	5,848	6,162	6,121
Total, General Funds Expenditures	$ 15,978	$ 17,221	$ 18,087	$ 18,517	$ 19,672	$ 21,527	$ 22,976	$ 24,583	$ 25,125	$ 24,861
Public Education's Share of Total General Funds Expenditures	22.6%	21.6%	21.3%	22.4%	23.4%	23.9%	24.1%	23.8%	24.7%	25.6%

*Includes the State Board of Education and Teachers Retirement Systems.

**Percentages exclude repayment of short-term borrowing principal in fiscal years 1994 ($600 million), 1995 ($300 million), 2002 ($226 million) and 2003 ($926 million).

tricts above a required local contribution to provide transportation for regular, vocational, and special education students. Fiscal year 2003 transportation grant spending of $438 million is $203 million or 86.4% higher than fiscal year 1994 spending of $235 million.

Grants for early childhood education have grown substantially over the past ten years. Spending of $183 million in fiscal year 2003 is more than double the $90 million expended in fiscal year 1994. These grants provide funds for early childhood programs and services that will help young children enter school ready to learn. Programs funded include the Pre-kindergarten Program for children at risk of academic failure and the Early Childhood Parental Training Program.

To improve reading achievement and study skills of students from kindergarten through sixth grade, grant dollars are dedicated for the Reading Improvement Program. Fiscal year 2003 spending of $79 million is $35 million or 79.5% more than fiscal year 1994 spending of $44 million and $4 million less than the $83 million expended in fiscal years 1999 through 2002.

The smallest category of General Funds spending for public education is operations with spending of $129 million in fiscal year 2003, an increase of $74 million or 134.5%. While the bulk of operations spending at most agencies is typically for employee salaries and benefits, many programs at the State Board are coded as a lump sum operation and include both grant and operations type spending. This accounts for the large increases in several years and the large decreases in fiscal year 2003.

Enrollment

Public school enrollment increased for the twelfth consecutive year during the 2001-02 school year. According to projections, enrollment should continue to increase for another five consecutive fiscal years. Kindergarten through twelfth grade enrollment of 1,998,484 for the 2001-02 school year is 174,876 or 9.6% higher than school year 1992-93 enrollment of 1,823,608.

The State Board forecasts that the overall public school enrollment will continue to increase through the 2006-07 before beginning a slight decline in the ensuing years. The increases are projected in secondary enrollment with slight declines projected at the elementary level.

Despite the fact that nearly 175,000 more students are enrolled in the state's public schools, pupil/teacher ratios have remained fairly steady over the past decade due to the hiring of new teachers. For the 1992-93 school year, the pupil/teacher ratio in elementary schools was 19.7 compared to 17.5 in secondary classrooms. By the 2001-02 school year the elementary ratio had declined to 19.0 while the secondary ratio increased to 18.1.

Illinois Public School Enrollment & Pupil/Teacher Ratios

School	Enrollment			Pupils per Teacher	
Year	Elementary	Secondary	Total	Elementary	Secondary
1992-93	1,301,016	522,592	1,823,608	19.7	17.5
1993-94	1,310,817	529,814	1,840,631	19.9	18.2
1994-95	1,319,985	541,253	1,861,238	19.6	18.2
1995-96	1,338,890	547,193	1,886,083	19.5	17.9
1996-97	1,358,721	551,786	1,910,507	20.0	18.5
1997-98	1,376,466	549,936	1,926,402	20.0	18.5
1998-99	1,389,319	546,200	1,935,519	19.6	18.1
1999-00	1,400,806	552,571	1,953,377	19.3	18.1
2000-01	1,410,133	562,723	1,972,856	19.1	18.0
2001-02	1,423,239	575,245	1,998,484	19.0	18.1
	PROJECTIONS				
2002-03	1,424,233	579,575	2,003,808		
2003-04	1,419,003	588,722	2,007,725		
2004-05	1,417,261	599,574	2,016,835		
2005-06	1,410,405	613,647	2,024,052		
2006-07	1,408,278	623,322	2,031,600		
2007-08	1,403,528	625,687	2,029,215		
2008-09	1,400,955	627,440	2,028,395		
2009-10	1,399,758	624,199	2,023,957		
2010-11	1,402,190	617,927	2,020,117		

Source: State Board of Education.

Student Performance

With the infusion of a significant amount of new state dollars over the past several fiscal years, lawmakers are demanding accountability for the taxpayer's investment. Changes in statewide achievement tests were undertaken and instituted in fiscal year 1999. The switch from IGAP (Illinois Goals Assessment Program) to ISAT (Illinois Standards Achievement Test) testing was instituted in fiscal year 1999. The ISAT tests all eligible public school students in grades 3, 5, and 8 in reading, mathematics and writing. All eligible public school students in grades 4 and 7 are tested in science and social science.

Secondary students are given the PSAE (Prairie State Achievement Test) in grade 11 with the tests covering reading, mathematics, writing, science and social science. PSAE tests scores become part of a student's permanent record whereas ISAT scores become a part of their temporary record. With only three years of data available for the ISAT and two years for the PSAE it is difficult to measure whether progress has been made in light of significantly increased taxpayer dollars invested. What is clear is that a substantial number

COVER STORY continued, page 12

Cover Story concluded from page 11

of public school children are testing below established standards.

In third grade, for the most recent year (2001-02) in which test results are available, 38% of students are below state standards in reading, 26% are below in mathematics and 43% are below in writing. In fifth grade, 41% are below in reading, 37% are below in math and 41% are below in writing. In eighth grade, 32% are below in reading, 47% are below in math and 37% are below in writing.

Fiscal Year 2004

Despite the bleak fiscal situation, fiscal year 2004 General Funds appropriations of $6.558 billion for elementary and secondary education are $382 million or 6.2% higher than fiscal year 2003 appropriations of $6.176 billion. Most of the increase is in general state aid and retirement grants. Fiscal year 2004 general state aid appropriations are $3.446 billion, $304 million or 9.7% above fiscal year 2003 appropriations of $3.142 billion. Retirement grant appropriations are $984 million for fiscal year 2004, $52 million or 5.6% above 2003 spending authority of $932 million. ■

Student Performance
Illinois Standards Achievement Test (ISAT)
Percent of Total

Reading	Grade 3			Grade 5			Grade 8		
	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02
Level 1 Academic Warning	6	7	7	0	1	2	0	1	1
Level 2 Below Standards	32	31	31	41	40	39	28	34	31
Level 3 Meets Standards	41	43	44	39	34	37	56	56	58
Level 4 Exceeds Standards	21	19	19	20	25	22	16	10	10

Mathematics	Grade 3			Grade 5			Grade 8		
	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02
Level 1 Academic Warning	10	8	7	6	4	5	8	7	7
Level 2 Below Standards	21	18	19	37	34	32	46	42	40
Level 3 Meets Standards	46	46	44	52	55	55	35	37	37
Level 4 Exceeds Standards	23	28	30	5	6	8	12	13	15

Writing	Grade 3			Grade 5			Grade 8		
	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02
Level 1 Academic Warning	6	9	9	3	4	6	3	6	5
Level 2 Below Standards	38	33	34	26	27	35	27	32	32
Level 3 Meets Standards	53	55	54	57	58	54	59	55	57
Level 4 Exceeds Standards	2	3	3	14	12	5	11	7	5

Science	Grade 4			Grade 7		
	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02
Level 1 Academic Warning	1	8	8	12	11	10
Level 2 Below Standards	35	26	25	16	17	17
Level 3 Meets Standards	51	54	53	54	52	56
Level 4 Exceeds Standards	13	11	14	18	20	17

Social Science	Grade 4			Grade 7		
	1999-00	2000-01	2001-02	1999-00	2000-01	2001-02
Level 1 Academic Warning	11	11	10	3	2	2
Level 2 Below Standards	30	28	31	39	38	40
Level 3 Meets Standards	53	55	54	46	47	48
Level 4 Exceeds Standards	6	6	6	12	13	11

Source: State Board of Education

Focus On Revenue concluded, from page 8

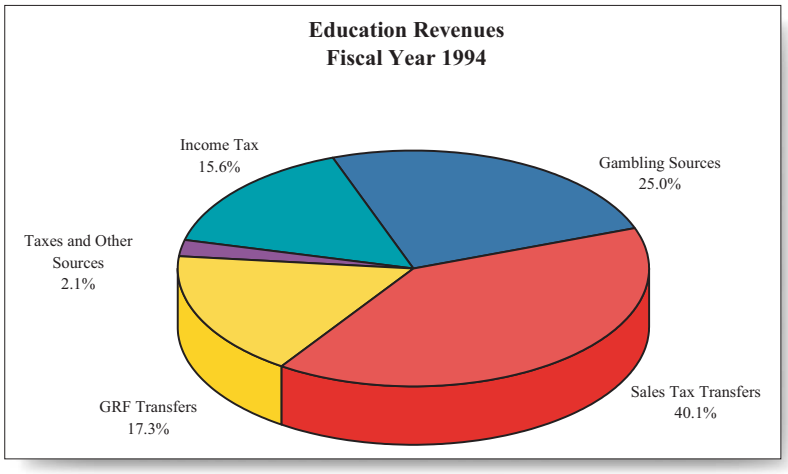
Over the ten-year period from fiscal year 1994 to 2003, public utility and cigarette taxes experienced the largest percentage growth of all revenues primarily due to tax increases. In fiscal year 1998, the telecommunications tax rate was increased from 5% to 7%. The Common School Fund receives $12 million per year of the original 5% tax and 50% of the additional 2% tax increase. While prior to 1998 the CSF received a portion of cigarette taxes, the entire 14-cent per pack increase enacted in 1997 was allocated to the fund.

Education Assistance Fund

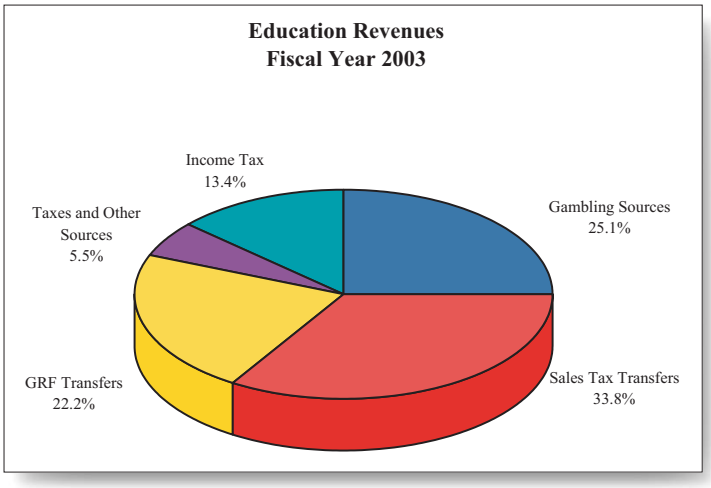
The Education Assistance Fund (EAF) was created in fiscal year 1990 when a temporary income tax was enacted with the revenues generated divided between education and local governments. While the tax was made permanent and the local government distribution has been changed, the EAF continues to receive 7.3% of individual and corporate income tax receipts. In fiscal year 1992 the fund began receiving riverboat gambling tax revenues. With general state aid payments being made from the EAF, cash flow problems in fiscal year 1998 resulted in legislation to provide the fund with the same deficiency transfer authority from the General Revenue Fund that the Common School Fund has. In fiscal year 2003, income taxes deposited into the EAF totaled $589.8 million or 51.4% of total revenues, with 48.3% or $553.5 million, coming from riverboat gambling transfers.

Conclusion

Combining the two funds and grouping similar sources reveals that over the past ten years General Revenue Fund transfers and other tax sources account for a larger percentage of education revenues. Income and sales tax percentages have declined while gambling sources have remained fairly consistent. This was due to tax increases in revenues dedicated to education and the fact that spending levels have increased faster than revenues.



The largest source of revenue for education remains the sales tax, accounting for 33.8% of revenues in fiscal year 2003. Gambling sources were 25.1% of total revenue, while GRF transfers represented 22.2%. It should be noted that State Board of Education expenditures included almost $2 billion directly from the GRF in fiscal year 2003. This plus the transfers to the Common School Fund make the General Revenue Fund the largest source of funding for elementary and secondary education. ■



Fiscal Forum

Our last question concerned a state budget issue that involved raising revenue, although on a short-term basis as opposed to long-range solution. The question proved to be popular and over 1,900 responses were received. The question and the responses from our readers are presented below.

Should the State of Illinois sell state assets to help balance the budget?

YES…65% **NO…35%**

The question for this issue of *Fiscal Focus* concerns federal involvement in elementary and secondary education:

Should the federal government provide more funds to implement the No Child Left Behind Act?

YES ☐ **NO** ☐

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

Local Government Line concluded from page 6

allow you to network with local government officials and accounting professionals who have implemented GASB 34 or are preparing for implementation."

Several helpful websites for GASB 34 information:

- **American Institute of Certified Public Accountants:** www.aicpa.org
- **Federal Highway Administration:** www.fhwa.dot.gov/infrastructure/asstmgmt
- **FinanceNet:** http://financenet.gov
- **Governmental Accounting Standards Board:** www.gasb.org
- **Governmental Finance Officers Association:** www.gfoa.org
- **Illinois Government Finance Officers Association:** www.igfoa.org
- **National Association of State Comptrollers:** www.sso.org/nasact/nasact.htm ■

Focus On Spending concluded, from page 9

year 2003 and will provide $60 million per year for each succeeding year.

State grants must be matched by local contributions. The local share ranges from 35% to 65% of the project cost depending on the property wealth of the school district. It is up to local governments to determine how to raise the matching funds. Possible options include existing reserves, General or Alternative Revenue Bonds, property taxes, or contributions from home-rule sales taxes.

Through the end of fiscal year 2003, the school construction program had assisted 420 Illinois school districts. The program had created 14,239 new classrooms in 275 new schools as well as funding 2,924 renovations and additions throughout Illinois. During its first six years, over $5.5 billion in state contributions and local matching funds had been committed to the program.

The Chicago Public School district was awarded over one-half billion dollars in state grants matched by almost $1 billion in local funds. Suburban schools were awarded over $1.0 billion matched by almost $1.3 billion in locally raised funds. School districts in the remaining ninety-six counties were awarded grants of almost $1.1 billion matched by almost $800 million of local funds.

An additional $482 million in state grants to 71 school districts was announced on September 3, 2003. This will help fund 26 new schools, improve 243 existing schools, and add 2,185 new classrooms to Illinois public school districts.

Clearly the school construction program has been effective in offering school districts new funds for school expansions and improvements. However, the program does not address the issue of obtaining additional operating funds for the new schools and classrooms. In fact, recent newspaper reports indicate that some school districts have found that once their new facilities are completed they lack the operating funds to staff and maintain the new facilities. ■

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

State Economic Revenues Show No Improvement

Receipts from economy-driven sources such as sales and income taxes were flat or in decline in the first quarter of fiscal year 2004 compared to the first quarter of last year. Sales taxes posted a modest 1% gain of $16 million while personal and corporate income tax receipts declined by $70 million or a decrease of 3.9%. Corporate income alone fell by $22 million or 14.1% while individual income tax revenues declined by $48 million or 2.9%.

However, for the first quarter of fiscal year 2004, state General Funds base revenues (excluding borrowing) increased by 21.0 % compared to first quarter fiscal year 2003, primarily as a result of federal resources climbing by 66.0% or $657 million dollars. When the $700 million in General Funds short-term loan proceeds from July 2002 are factored in, total growth drops to only $467 million or 7.2%.

The growth in federal receipts can be attributed to several factors. A federal fiscal relief grant of $211 million was received in August as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. That Act also included a temporary increase in Medicaid reimbursement rates from 50% to 53%. This change, coupled with an aggressive cash management strategy implemented by the Comptroller's Office, allowed for increased federal reimbursements for state Medicaid spending. The state paid down over $2.34 billion dollars in Medicaid obligations from July 1 through September 30th, 2003.

Another factor in overall revenue growth was $521 million in Pension Contribution Fund transfers emanating from the $10 billion sale of Pension Bonds engineered in the last quarter of fiscal year 2003. This source was obviously not available in the first quarter of last year.

On the expenditure side, $483 million or 7.5% in increased spending was recorded in the first quarter of fiscal year 2004 compared to the previous year. Total first quarter spending from the General Funds totaled $6.937 billion and included the aforementioned accelerated Medicaid expenditures.

This revenue and expenditure activity has occurred in an environment where the state still maintains significant backlogs of unpaid bills. Backlogs of $781 million existing as of September 30, 2003 compare favorably to $914 million at this time last year.

Base Revenues Increase 21.0%

Total base revenues in the General Funds (excluding short-term borrowing and the transfer from the Budget Stabilization Fund) totaled $6.713 billion through the first quarter, an increase of $1.167 billion or 21.0%. State sources increased $510 million (11.2%) while federal sources were up $657 million (66.0%). For September, base revenues increased $241 million (state sources up $109 million and federal sources up $132 million). There was one more processing day this September compared to last year.

The large increase in federal sources through the first quarter is due to the surge of Medicaid payments following the $211 million federal grant, increased Medicaid reimbursement rates and the concentrated effort of the Comptroller's Office to reduce backlogs to Medicaid providers.

The quarterly increase in state sources is the result of a $549 million increase in transfers in and a $39 million drop in cash receipts. The growth in transfers in stems from the transfer of $521 million from the Pension Contribution Fund. Both lottery and riverboat gambling transfers remained basically flat through the first quarter of fiscal year 2004.

Income, inheritance and public utility taxes all declined for the quarter. Income taxes dropped by $70 million or 3.9% including a $48 million or 2.9% decline in individual and a $22 million or 14.1% decline in corporate. Inheritance taxes dropped $34 million or 44.7% while public utility taxes dropped $3 million or 1.3%. The drop in income tax receipts is due to an increased portion being dedicated to the Income Tax Refund Fund as well as reflecting the lackluster economic performance. Also reflective of the slow overall economy is an increase of only 1.0% or $16 million in sales taxes, which occurred in September and was due in part to the additional processing day. Other sources were up $30 million due to the increase in riverboat gambling taxes which are deposited into the Common School Fund.

Expenditures Up 7.5%

Through September, General Funds expenditures totaled $6.937 billion, $483

VITAL STATISTICS continued, page 16

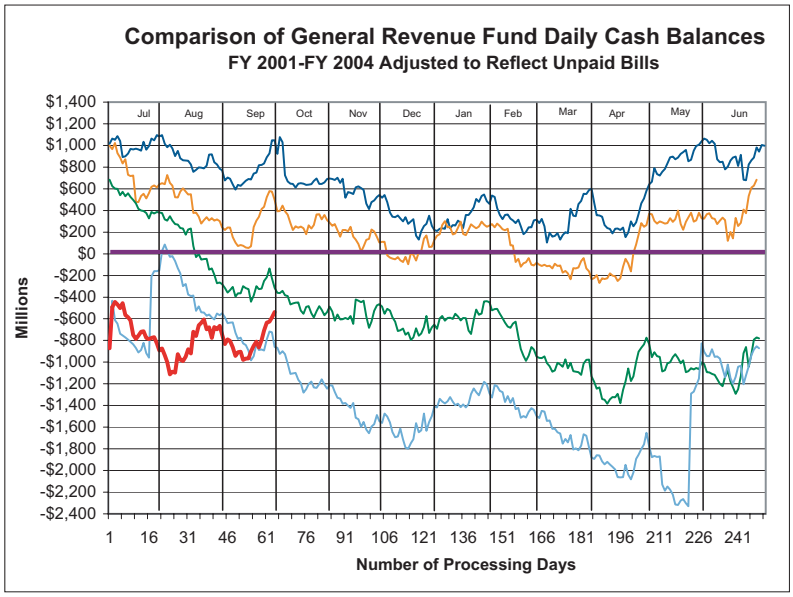
Vital Statistics concluded from page 15

million or 7.5% above last year. Of the $483 million increase over the first quarter of last fiscal year, $423 million or 87.6% is for Medicaid spending from the Department of Public Aid. With a quarter of the fiscal year gone, 38.8% of Medicaid appropriations have been expended.

The brisk pace of Medicaid spending was due to a concerted effort by the Office of the Comptroller to not only aid Medicaid service providers then experiencing lengthy payment delays, but also to maximize matching federal dollars needed to bolster the cash-strapped General Revenue Fund. This same cash flow technique was utilized during the first quarter of last fiscal year as well. Using short-term loan proceeds, 34.0% of appropriations were expended in the first quarter of fiscal year 2003. For comparison, only 23.7% of fiscal year 2002 appropriations for Medicaid were spent in the first quarter during better revenue performing periods.

The only other areas of spending which increased over the first quarter are State Board of Education grants (up $76 million or 7.5%) and Teachers' Retirement System grants (up $19 million or 8.2%).

Areas of spending showing declines over the first quarter include Human Services grants (down $68 million or 8.6%), higher education grants (down $18 million or 10.5%), all other grants (down $25 million or 7.2%), state operations expenditures other than higher education (down $121 million or 9.1%), higher education operations (down $40 million or 8.5%) and transfers out (down $8 million or 1.7%).



Through the first quarter of fiscal year 2004, 24.5% of current year's appropriations have been expended compared to 24.0% in fiscal year 2003. Non-Medicaid spending has used 20.2% of appropriations in 2004 compared to the 21.2% expended in 2003.

What Lies Ahead

Unfortunately, cash flow challenges will continue to exist as Illinois moves into the next three quarters of fiscal year 2004. Although the state appears to maintain a better financial position now compared to last winter and spring, there are numerous factors which could create serious financial pressures as we proceed into fiscal year 2004. Illinois must begin to pay back a total of $1.5 billion in short-term loan proceeds in January of 2004 and pay back the entire amount by May 2004. This factor alone will dominate bill paying issues during the next calendar year.

It is too soon to tell if the revenue assumptions used to craft the fiscal year 2004 budget will be realized. These include the sale of state assets, anticipated transfers from other funds, savings from consolidations and efficiencies, and proceeds from a tax amnesty plan. It is not yet known if various fee changes and increases enacted last spring will produce the revenues expected once fully implemented. Overriding these factors is the performance of the state and national economies. If a measurable recovery does not occur, it is more than likely that the cash flow problems of the past two years will continue and perhaps be exacerbated. ■

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

	July 2002	July 2003	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 256	$ 317	$ 61	23.8 %
Revenues	2,966	2,200	(766)	(25.8)
Expenditures	2,749	1,981	(768)	(27.9)
Ending Balance	$ 473	$ 536	$ 63	13.3 %
General Revenue Fund				
Available Balance	$ 0	$ 1	$ 1	N/A %
Revenues	2,681	1,919	(762)	(28.4)
Expenditures	2,619	1,904	(715)	(27.3)
Ending Balance	$ 62	$ 16	$ (46)	(74.2) %
Common School Special Account Fund				
Available Balance	$ 37	$ 62	$ 25	67.6 %
Revenues	131	133	2	1.5
Expenditures	12	0	(12)	(100.0)
Ending Balance	$ 156	$ 195	$ 39	25.0 %
Education Assistance Fund				
Available Balance	$ 198	$ 209	$ 11	5.6 %
Revenues	88	87	(1)	(1.1)
Expenditures	78	29	(49)	(62.8)
Ending Balance	$ 208	$ 267	$ 59	28.4 %
Common School Fund				
Available Balance	$ 21	$ 44	$ 23	109.5 %
Revenues	78	61	(17)	(21.8)
Expenditures	52	48	(4)	(7.7)
Ending Balance	$ 47	$ 57	$ 10	21.3 %

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 2002	July 2003	Change From Prior Year $	Change From Prior Year %
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 493	$ 486	$ (7)	(1.4) %
Corporate	26	26	0	0.0
Total, Income Taxes	$ 519	$ 512	$ (7)	(1.3) %
Sales Taxes	529	534	5	0.9
Other Sources:				
Public Utility Taxes	76	85	9	11.8
Cigarette Taxes	33	33	0	0.0
Inheritance Tax (gross)	28	17	(11)	(39.3)
Liquor Gallonage Taxes	11	15	4	36.4
Insurance Taxes and Fees	2	1	(1)	(50.0)
Corporation Franchise Tax and Fees	9	12	3	33.3
Investment Income	6	10	4	66.7
Cook County IGT	54	54	0	0.0
Other	19	26	7	36.8
Total, Other Sources	$ 238	$ 253	$ 15	6.3 %
Total, Cash Receipts	$ 1,286	$ 1,299	$ 13	1.0 %
Transfers In:				
Lottery Fund	$ 44	$ 31	$ (13)	(29.5) %
State Gaming Fund	50	50	0	0.0
Pension Contribution Fund	0	203	203	N/A
Other Funds	174	225	51	29.3
Total, Transfers In	$ 268	$ 509	$ 241	89.9 %
Total, State Sources	$ 1,554	$ 1,808	$ 254	16.3 %
Federal Sources:				
Cash Receipts	$ 486	$ 161	$ (325)	(66.9) %
Transfers In	0	5	5	0.0
Total, Federal Sources	$ 486	$ 166	$ (320)	(65.8) %
Total, Base Revenues	**$ 2,040**	**$ 1,974**	**$ (66)**	**(3.2) %**
Short-Term Borrowing	700	0	(700)	(100.0)
Transfer from Budget Stabilization Fund	226	226	0	0.0
Total, Revenues	$ 2,966	$ 2,200	$ (766)	(25.8) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

	July 2002	July 2003	Change From Prior Year $	Change From Prior Year %
Expenditures:				
Awards and Grants:				
Public Aid	$ 733	$ 884	$ 151	20.6 %
Elem. & Sec. Education:				
State Board of Education	54	45	(9)	(16.7)
Teachers Retirement	77	87	10	13.0
Total, Elem. & Sec. Education	$ 131	$ 132	$ 1	0.8 %
Human Services	254	230	(24)	(9.4)
Higher Education	10	7	(3)	(30.0)
All Other Grants	80	89	9	11.3
Total, Awards and Grants	$ 1,208	$ 1,342	$ 134	11.1 %
Operations:				
Other Agencies	$ 413	$ 397	$ (16)	(3.9) %
Higher Education	140	111	(29)	(20.7)
Total, Operations	$ 553	$ 508	$ (45)	(8.1) %
Transfers Out	$ 238	$ 176	$ (62)	(26.1) %
All Other	$ 4	$ 7	$ 3	75.0 %
Vouchers Payable Adjustment	$ 746	$ (52)	$ (798)	N/A
Total, Base Expenditures	**$ 2,749**	**$ 1,981**	**$ (768)**	**(27.9) %**
Transfers to Repay Short-Term Borrowing	0	0	0	N/A
Total, Expenditures	$ 2,749	$ 1,981	$ (768)	(27.9) %

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

	July 2002	July 2003	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 202	$ 173	$ (29)	(14.4) %
Other Personal Services	22	20	(2)	(9.1)
Total, Personal Services	$ 224	$ 193	$ (31)	(13.8) %
Contribution Retirement	44	48	4	9.1
Contribution Social Security	15	13	(2)	(13.3)
Contribution Group Insurance	40	78	38	95.0
Contractual Services	39	35	(4)	(10.3)
Travel	2	1	(1)	(50.0)
Commodities	12	9	(3)	(25.0)
Printing	1	0	(1)	0.0
Equipment	6	3	(3)	(50.0)
Electronic Data Processing	9	6	(3)	(33.3)
Telecommunications	4	4	0	0.0
Automotive Equipment	2	1	(1)	(50.0)
Other Operations	155	117	(38)	(24.5)
Total, Operations	$ 553	$ 508	$ (45)	(8.1) %

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

	July 2002	July 2003	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 22	$ 0	$ (22)	(100.0) %
All Other	32	45	13	40.6
Public Aid	733	884	151	20.6
Human Services	254	230	(24)	(9.4)
Higher Education:				
Student Assistance Commission	3	2	(1)	(33.3)
Community College Board	0	0	0	N/A
Other	7	5	(2)	(28.6)
Teacher's Retirement	77	87	10	13.0
Children and Family Services	30	32	2	6.7
Aging 16		16	0	0.0
Revenue	1	0	(1)	(100.0)
All Other	33	41	8	24.2
Total, Awards and Grants	$ 1,208	$ 1,342	$ 134	11.1 %

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

	August 2003	Two Months FY 2004	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 536	$ 317	$ 61	23.8 %
Revenues	2,595	4,795	225	4.9
Expenditures	2,694	4,675	185	4.1
Ending Balance	$ 437	$ 437	$ 101	30.1 %
General Revenue Fund				
Available Balance	$ 16	$ 1	$ 1	N/A %
Revenues	2,308	4,227	217	5.4
Expenditures	2,300	4,204	234	5.9
Ending Balance	$ 24	$ 24	$ (16)	(40.0) %
Common School Special Account Fund				
Available Balance	$ 195	$ 62	$ 25	67.6 %
Revenues	128	261	(1)	(0.4)
Expenditures	154	154	55	55.6
Ending Balance	$ 169	$ 169	$ (31)	(15.5) %
Education Assistance Fund				
Available Balance	$ 267	$ 209	$ 11	5.6 %
Revenues	93	180	3	1.7
Expenditures	130	159	(132)	(45.4)
Ending Balance	$ 230	$ 230	$ 146	173.8 %
Common School Fund				
Available Balance	$ 57	$ 44	$ 23	109.5 %
Revenues	220	282	61	27.6
Expenditures	264	313	84	36.7
Ending Balance	$ 13	$ 13	$ 0	0.0 %

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

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	Aug. 2003	Two Months FY 2004	Change From Prior Year $	Change From Prior Year %
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 506	$ 992	$ (16)	(1.6) %
Corporate	8	34	(2)	(5.6)
Total, Income Taxes	$ 514	$ 1,026	$ (18)	(1.7) %
Sales Taxes	516	1,049	(5)	(0.5)
Other Sources:				
Public Utility Taxes	65	150	(10)	(6.3)
Cigarette Taxes	33	67	0	0.0
Inheritance Tax (gross)	13	30	(25)	(45.5)
Liquor Gallonage Taxes	8	23	1	4.5
Insurance Taxes and Fees	14	15	6	66.7
Corporation Franchise Tax and Fees	9	21	0	0.0
Investment Income	6	15	1	7.1
Cook County IGT	0	54	0	0.0
Other	27	54	15	38.5
Total, Other Sources	$ 175	$ 429	$ (12)	(2.7) %
Total, Cash Receipts	$ 1,205	$ 2,504	$ (35)	(1.4) %
Transfers In:				
Lottery Fund	$ 39	$ 70	$ (9)	(11.4) %
State Gaming Fund	55	105	5	5.0
Pension Contribution Fund	165	368	368	N/A
Other Funds	41	266	71	36.4
Total, Transfers In	$ 300	$ 809	$ 435	116.3 %
Total, State Sources	$ 1,505	$ 3,313	$ 400	13.7 %
Federal Sources:				
Cash Receipts	$ 1,083	$ 1,244	$ 518	71.3 %
Transfers In	7	12	7	140.0
Total, Federal Sources	$ 1,090	$ 1,256	$ 525	71.8 %
Total, Base Revenues	**$ 2,595**	**$ 4,569**	**$ 925**	**25.4 %**
Short-Term Borrowing	0	0	(700)	(100.0)
Transfer from Budget Stabilization Fund	0	226	0	0.0
Total, Revenues	$ 2,595	$ 4,795	$ 225	4.9 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	August 2003	Two Months FY 2004	Change From Prior Year $	Change From Prior Year %
Awards and Grants:				
Public Aid	$ 741	$ 1,624	$ 473	41.1 %
Elem. & Sec. Education:				
State Board of Education	436	482	(67)	(12.2)
Teachers Retirement	82	169	14	9.0
Total, Elem. & Sec. Education	$ 518	$ 651	$ (53)	(7.5) %
Human Services	294	524	(7)	(1.3)
Higher Education	81	87	(18)	(17.1)
All Other Grants	108	197	(42)	(17.6)
Total, Awards and Grants	$ 1,742	$ 3,083	$ 353	12.9 %
Operations:				
Other Agencies	$ 398	$ 794	$ (108)	(12.0) %
Higher Education	136	248	(43)	(14.8)
Total, Operations	$ 534	$ 1,042	$ (151)	(12.7) %
Regular Transfers Out	$ 196	$ 372	$ 29	8.5 %
All Other	$ 3	$ 11	$ 4	57.1 %
Vouchers Payable Adjustment	$ 219	$ 167	$ (50)	(23.0)
Total, Base Expenditures	**$ 2,694**	**$ 4,675**	**$ 185**	**4.1 %**
Transfers to Repay Short-Term Borrowing	0	0	0	N/A
Total, Expenditures	$ 2,694	$ 4,675	$ 185	4.1 %

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

	August 2003	Two Months FY 2004	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 176	$ 349	$ (59)	(14.5) %
Other Personal Services	19	39	(5)	(11.4)
Total, Personal Services	$ 195	$ 388	$ (64)	(14.2) %
Contribution Retirement	48	97	8	9.0
Contribution Social Security	13	26	(4)	(13.3)
Contribution Group Insurance	31	109	2	1.9
Contractual Services	60	95	(14)	(12.8)
Travel	2	3	0	0.0
Commodities	8	18	(5)	(21.7)
Printing	1	1	(1)	(50.0)
Equipment	4	7	(4)	(36.4)
Electronic Data Processing	8	13	(5)	(27.8)
Telecommunications	6	10	(2)	(16.7)
Automotive Equipment	2	3	(1)	(25.0)
Other Operations	156	272	(61)	(18.3)
Total, Operations	$ 534	$ 1,042	$ (151)	(12.7) %

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

	August 2003	Two Months FY 2004	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 316	$ 316	$ 33	11.7 %
All Other	120	166	(100)	(37.6)
Public Aid	741	1,624	473	41.1
Human Services	294	524	(7)	(1.3)
Higher Education:				
Student Assistance Commission	1	4	(3)	(42.9)
Community College Board	78	78	(9)	(10.3)
Other	2	5	(6)	(54.5)
Teacher's Retirement	82	169	14	9.0
Children and Family Services	59	91	(12)	(11.7)
Aging 23		39	2	5.4
Revenue	0	1	0	0.0
All Other	26	66	(32)	(32.7)
Total, Awards and Grants	$ 1,742	$ 3,083	$ 353	12.9 %

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

	Sept. 2003	Three Months FY 2004	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 437	$ 317	$ 61	23.8 %
Revenues	2,143	6,939	467	7.2
Expenditures	2,261	6,937	483	7.5
Ending Balance	$ 319	$ 319	$ 45	16.4 %
General Revenue Fund				
Available Balance	$ 24	$ 1	$ 1	N/A %
Revenues	1,829	6,057	444	7.9
Expenditures	1,843	6,048	461	8.3
Ending Balance	$ 10	$ 10	$ (16)	(61.5) %
Common School Special Account Fund				
Available Balance	$ 169	$ 62	$ 25	67.6 %
Revenues	131	392	4	1.0
Expenditures	199	353	120	51.5
Ending Balance	$ 101	$ 101	$ (91)	(47.4) %
Education Assistance Fund				
Available Balance	$ 230	$ 209	$ 11	5.6 %
Revenues	112	291	(1)	(0.3)
Expenditures	154	312	(149)	(32.3)
Ending Balance	$ 188	$ 188	$ 159	548.3 %
Common School Fund				
Available Balance	$ 13	$ 44	$ 23	109.5 %
Revenues	270	552	140	34.0
Expenditures	264	577	171	42.1
Ending Balance	$ 19	$ 19	$ (8)	(29.6) %

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

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	Sept. 2003	Three Months FY 2004	Change From Prior Year $	Change From Prior Year %
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 608	$ 1,600	$ (48)	(2.9) %
Corporate	100	134	(22)	(14.1)
Total, Income Taxes	$ 708	$ 1,734	$ (70)	(3.9) %
Sales Taxes	528	1,577	16	1.0
Other Sources:				
Public Utility Taxes	79	229	(3)	(1.3)
Cigarette Taxes	33	100	7	7.5
Inheritance Tax (gross)	12	42	(34)	(44.7)
Liquor Gallonage Taxes	10	32	1	3.2
Insurance Taxes and Fees	59	74	11	17.5
Corporation Franchise Tax and Fees	15	36	2	5.9
Investment Income	4	20	1	5.3
Cook County IGT	23	77	0	0.0
Other	32	86	30	53.6
Total, Other Sources	$ 267	$ 696	$ 15	2.2 %
Total, Cash Receipts	$ 1,503	$ 4,007	$ (39)	(1.0) %
Transfers In:				
Lottery Fund	$ 38	$ 108	$ (11)	(9.2) %
State Gaming Fund	60	165	5	3.1
Pension Contribution Fund	152	521	521	N/A
Other Funds	(7)	259	34	15.1
Total, Transfers In	$ 243	$ 1,053	$ 549	108.9 %
Total, State Sources	$ 1,746	$ 5,060	$ 510	11.2 %
Federal Sources:				
Cash Receipts	$ 397	$ 1,641	$ 655	66.4 %
Transfers In	0	12	2	20.0
Total, Federal Sources	$ 397	$ 1,653	$ 657	66.0 %
Total, Base Revenues	**$ 2,143**	**$ 6,713**	**$ 1,167**	**21.0 %**
Short-Term Borrowing	0	0	(700)	(100.0)
Transfer from Budget Stabilization Fund	0	226	0	0.0
Total, Revenues	$ 2,143	$ 6,939	$ 467	7.2 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	Sept. 2003	Three Months FY 2004	Change From Prior Year $	Change From Prior Year %
Awards and Grants:				
Public Aid	$ 493	$ 2,117	$ 423	25.0 %
Elem. & Sec. Education:				
State Board of Education	610	1,091	76	7.5
Teachers Retirement	82	252	19	8.2
Total, Elem. & Sec. Education	$ 692	$ 1,343	$ 95	7.6 %
Human Services	201	724	(68)	(8.6)
Higher Education	65	153	(18)	(10.5)
All Other Grants	124	321	(25)	(7.2)
Total, Awards and Grants	$ 1,575	$ 4,658	$ 407	9.6 %
Operations:				
Other Agencies	$ 409	$ 1,203	$ (121)	(9.1) %
Higher Education	180	428	(40)	(8.5)
Total, Operations	$ 589	$ 1,631	$ (161)	(9.0) %
Regular Transfers Out	$ 97	$ 469	$ (8)	(1.7) %
All Other	$ 0	$ 11	$ 6	120.0 %
Vouchers Payable Adjustment	$ 0	$ 168	$ 239	N/A
Total, Base Expenditures	**$ 2,261**	**$ 6,937**	**$ 483**	**7.5 %**
Transfers to Repay Short-Term Borrowing	0	0	0	N/A
Total, Expenditures	$ 2,261	$ 6,937	$ 483	7.5 %

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

	Sept. 2003	Three Months FY 2004	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 172	$ 520	$ (89)	(14.6) %
Other Personal Services	19	58	(7)	(10.8)
Total, Personal Services	$ 191	$ 578	$ (96)	(14.2) %
Contribution Retirement	54	151	18	13.5
Contribution Social Security	12	38	(6)	(13.6)
Contribution Group Insurance	76	185	17	10.1
Contractual Services	53	149	(19)	(11.3)
Travel	1	5	0	0.0
Commodities	7	25	(5)	(16.7)
Printing	0	2	(1)	(33.3)
Equipment	3	9	(4)	(30.8)
Electronic Data Processing	5	18	(3)	(14.3)
Telecommunications	3	13	(2)	(13.3)
Automotive Equipment	2	4	(1)	(20.0)
Other Operations	182	454	(59)	(11.5)
Total, Operations	$ 589	$ 1,631	$ (161)	(9.0) %

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

	Sept. 2003	Three Months FY 2004	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 286	$ 601	$ 59	10.9 %
All Other	324	490	17	3.6
Public Aid	493	2,117	423	25.0
Human Services	201	724	(68)	(8.6)
Higher Education:				
Student Assistance Commission	58	62	0	0.0
Community College Board	6	84	(9)	(9.7)
Other	1	7	(9)	(56.3)
Teacher's Retirement	82	252	19	8.2
Children and Family Services	69	160	(2)	(1.2)
Aging 20		59	4	7.3
Revenue	0	1	(1)	(50.0)
All Other	35	101	(26)	(20.5)
Total, Awards and Grants	$ 1,575	$ 4,658	$ 407	9.6 %

HOW DO YOU SPELL *RELIEF?*

The Medicaid Relief Plan announced by Comptroller Hynes has been a success and touched every part of the State of Illinois. The plan alleviated severe payment backlogs experienced by the state's health care providers and accelerated federal reimbursement monies to the state. The accompanying table shows the dollar impact by region for the warrants issued for the first three months of fiscal year 2004.

Medical Warrants Issued From 7/1/03 - 9/30/03 by Region

Region	# of Warrants	Amount of Warrants	# of Vendors
Bloomington	5,085	$ 26,649,581.66	214
Carbondale	8,685	37,185,322.79	390
Centralia	8,517	30,638,914.88	373
Champaign	7,735	53,509,528.89	323
Chicago	76,629	936,018,632.07	3,299
North Suburban	27,965	201,578,474.88	1,747
South Suburban	26,751	132,232,041.81	1,416
West Suburban	43,849	218,926,676	2,325
East St.Louis	22,090	93,135,715.32	888
Effingham	4,715	18,617,505.56	209
Galesburg	5,223	32,683,547.89	182
Kankakee	5,057	18,345,436.91	206
LaSalle	4,970	15,790,145.28	205
Peoria	14,201	68,511,766.32	424
Quincy	3,154	13,859,203.80	140
Rock Island	7,153	23,494,317.40	358
Rockford	11,889	74,329,134.68	421
Springfield	19,023	157,672,651.27	658
Other	36,432	189,830,200.40	2,090
Totals	**339,123**	**$ 2,343,008,798.18**	**13,526**

Note: There were 13,526 unique vendor numbers. However, some of these vendors were paid at multiple locations. When analyzed within each location, there were 15,868 vendors.

Comptroller Daniel W. Hynes is the chief fiscal officer for the state, managing its financial accounts, processing more than 18 million transactions a year, and performing a watchdog role to assure that all payments meet the requirements of the law. The Comptroller's Office also provides timely and accurate fiscal information and analysis to the Governor, the Illinois General Assembly, and local government officials so they can make informed budget decisions. In addition, the Office oversees the state's private cemetery and funeral home industry.

COMPTROLLER DANIEL W. HYNES

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Fiscal Focus
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