OVERVIEW AND ANALYSIS:
PROPOSED FY2004 STATE OF ILLINOIS BUDGET

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I. FY04 DEFICIT CLOSING INIATIVES

The State of Illinois is projecting a $4.4 billion deficit for FY2004. The table below outlines this projected deficit in terms of the measures taken to balance the proposed budget. Due to changes in the exact figures associated with certain initiatives, the rounded figures below may not match exactly with figures used later in the text.

FY2004

• Base Revenue Estimate Higher than Transition Report	$419 million
• Governor's Initiatives, Reserves & Admin. Cuts	$407 million
• Transfer from Pension Bond Proceeds	$1.6 billion
• One-Time Initiatives	$673 million
• On-going Initiatives	$1.3 billion
	$4.4 billion

A. Revenues Increases

The following sections summarize the various new revenue enhancements contained in the FY2004 State budget. Highlights are provided of both one-time revenues and recurring revenues. Special attention is given to the elimination of certain corporate and sales tax exemptions and credits.

One-Time Revenues:	$ millions	
Gaming Revenues: 10th license sale	$	350
Sale-leaseback of Thompson Center	$	200
Cigarette Tax: accelerated payment	$	50
Tax amnesty: encourages payment of unpaid taxes	$	40
Asset sales of Toll Highway headquarters and other properties	$	33
Sub- Total	**$**	**673**
Recurring Revenues:	$ millions	
Fee Increases (non-consumer)	$	338
Administrative Surcharges of 5% on Other Funds	$	330
Eliminating Exemptions: Corporate and Sales taxes	$	316
Gaming Taxes: 20% surcharge / $5 Admission	$	160
Inheritance tax: Decoupling from federal tax	$	35
Liquor Taxes: requiring distributors to prepay	$	32
Out of State tuition increase	$	20
Interest Rate Reduction: On delayed Income Tax refunds to 3%	$	11
Sub-Total	**$**	**1,242**
Total		**$1,915**

ONE-TIME REVENUES
Several one-time revenue enhancements are included in the FY2004 budget. The largest single enhancement is revenue from the pension obligation bonds, which is discussed in the long-term obligations section. All of these one-time enhancements total $673 million.

10TH RIVERBOAT LICENSE: $350 MILLION

- The State projects the 10th riverboat license can be sold for $350 million

SALE-LEASEBACK: $200 MILLION

- Sale-leasebacks involve selling state-owned property to a new owner at fair market value and then leasing back the property for 20 or 30 years. The lease rate and annual increases are fixed at the time of the transaction and the State can renew the lease beyond the initial period.
- The advantages of a sale leaseback arrangement for the 980,000 square foot Thompson Center are:
    - State retains operational control of a facility.
    - State agencies are not disrupted with relocation efforts.
    - Frees up State resources for other needs.
    - Can generate more money than borrowing, which is usually limited to 75% of the value of an asset.
- The disadvantages of a sale leaseback arrangement for the Thompson Center are:
    - Can be up to 1.5 percentage points more expensive than borrowing (Tribune 4/22/03)
    - Value of Thompson Center could drop if State's credit rating falls (Moody's is reconsidering the State's Aa2 rating).
    - The high cost needed to convert building to office or commercial use at the end of the lease could diminish its value.
    - The costs of paying off current bonds may be much higher than value of the property.
    - Current downtown real estate market is poor, raising questions of value of the asset. 200 W. Wacker and Prudential Plaza have been pulled off the market. Some analysts think the Center may only be worth $40 million (Tribune 4/12/03).
- The value of a sale leaseback depends on the terms of the lease the State would sign. The 17-story Thompson Center has 74,000 square feet of commercial space.
- The State estimates it can obtain $200 million in revenues from sale and leaseback of the Thompson Center. The state may pay as much as $300 million in lease payments over 20 years before regaining title to the building.

ACCELERATE CIGARETTE TAX PAYMENTS: $50 MILLION

- The requirement that the Department of Revenue delays for one month the depositing of checks from cigarette distributors purchasing large quantities of cigarette stamps will be repealed.

TAX AMNESTY: $40 MILLION

- A tax amnesty is expected to generate a total of $184 million.
- The last amnesty, in 1984, generated $161 million.

- $102 million will be used for an acceleration of payments within FY2003 and $42 million will be earmarked for local governments
- The remaining $40 million will be used to accelerate payments in FY2004.

ASSET SALES: $33 MILLION

- The sale of the 187,000 square foot Toll Highway headquarters is expected to yield $30 million. Experts question whether the State can recapture the $25.6 million spent in 1992 to construct the building (Tribune 4/22/03). Given the costs in getting the building ready, the uncertain amount of available space and the poor real estate market, the State's estimate is probably very optimistic. A more cost effective approach might be to do a sale leaseback of the building for a 10-year period.
- The sale of 70 acres surrounding the Elgin Mental Health Center is anticipated to yield $3 million.

RECURRING REVENUES

The FY2004 budget proposes five sources of recurring revenues: non-consumer fee increases, administrative chargebacks, adjusting gaming and liquor taxes, increasing out-of-state tuition and reducing interest paid on refunds. These recurring revenues total $1,242 million.

USER FEE INCREASES: $338 MILLION

- The State of Illinois currently collects over 1,500 fees.
- On average, Illinois fee rates are 40% of the rate in comparable states.

TOTAL FEE INCREASES BY AGENCY

Agency		New $ (Millions)	% of Total
GRF Fees			
Secretary of State	$	108	32%
EPA	$	61	18%
Revenue	$	44	13%
Industrial Commission	$	27	8%
Banks & Real Estate	$	25	8%
Other Agencies	$	16	5%
Insurance	$	13	4%
Nuclear Safety (IEMA)	$	9	3%
State Police	$	5	1%
Financial Institutions	$	5	1%
Capital Development Board	$	4	1%
Illinois Commerce Commission	$	3	1%
Agriculture	$	2	1%
Public Health	$	1	0%
Fire Marshal	$	1	0%
Total	**$**	**323**	**96%**
Non-GRF Fees*			
Secretary of State	$	15	4%
Total	**$**	**15**	4%
GRAND TOTAL	**$**	**338**	**100%**

*** Road Fund, SoS Services Fund**

FY04 FEE INCREASES GENERATING $1 MILLION OR MORE

Agency (GRF)	Fee	Current Fee	New Rate or % Increase	New $ (Millions)	Last Change
Capital Develop. Board	Contract Administration	1.5% of services	3% of services	$ 3.5	1989
Financial Institutions	Title Insurance Registration	$1/policy by agent up to $20,000	$3/policy - no maximum	$ 2.4	1989
Financial Institutions	Credit Union Regulatory	$100/$125,000	$150/$187,500	$ 1.9	2001
Nuclear Safety	Annual Nuclear Reactor	$161,839	varies	$ 9.0	2002
Public Health	Nursing Home Penalties	$50-$10,000/day	varies	$ 1.4	1999
EPA	Clean Air Act Construct. Permit		$2,000/permit	$ 2.2	New
EPA	State Op. Permit (Air Pollution)	$100,$1000 $2,500 per permit	$200,$1800 $3,500 per permit	$ 1.2	1986
EPA	Title V (Clean Air Act Permit)	$13.50/ton	$16.50/ton	$ 8.0	1996
EPA	Solid Waste Management	>150,000 cu. Yard either .45/cu. Yard or .95/ton	$1.50/ton	$ 13.8	1994
EPA	Hazardous Waste	In-state - $500; Out-of-State, in-state generators - $1/manifest	$3/manifest	$ 1.0	1989
EPA	Hazardous Waste Disposal	$0.03/gal treatment; $).09/gal disposal	$0.10/gal treatment; $0.25/gal/disposal	$ 3.0	1990
EPA	Subtitle D Disposal	$0.12/ton	$0.22/ton	$ 1.3	1994
EPA	NDES Permit		$500-$50,000	$ 26.0	New
EPA	Water Main Construction	$120-$600	$175-$870	$ 1.8	1989
Industrial Commission	Work. Comp. Arbitration		Based on comp. payer based on award amount	$ 27.0	New
Insurance	Producer License	$150 every 2 yrs	$200	$ 3.4	1989
Insurance	Financial Regulation	Varies	Varies	$ 7.6	1992
Insurance	Fines,Penalties & Interest	5% penalty, 12% per annum interest on late payment of taxes/fees	Varies	$ 1.2	1980s
State Police	Traffic/Criminal Conviction Fine	$75	$100	$ 5.0	1992
Banks & Real Estate	Appraisal Fees	Varies	Varies	$ 2.4	1994
Banks & Real Estate	Examination Fees	Varies	Varies	$ 1.1	N/A
Banks & Real Estate	Mortgage Banking	Varies	Varies	$ 1.6	N/A
Revenue	Delinquent Account	Varies	Varies	$ 24.0	2001
Revenue	Used Tires	$1/tire	$2/tire	$ 6.2	1992
Revenue	Coin Operating Amuse Devices	$1/yr or $8/6 mos	$100/yr	$ 7.0	1990
Secretary of State	Annual Report Filing Fee	$25	$75	$ 12.0	1997
Secretary of State	Art of Inc Filing Fee	$75	$150	$ 3.0	N/A
Secretary of State	UCC	$20	$60	$ 8.0	1997
Secretary of State	LLC Annual Report	$200	$250	$ 1.6	N/A
Secretary of State	LLC Annual Report Art. of Org.	$400	$500	$ 1.1	N/A
Secretary of State	BCA Expedited	$10-$100	$20-$200	$ 2.5	N/A
Secretary of State	BCA Appt for Reinstate	$100	$200	$ 1.1	N/A
Secretary of State	Securities Renewal Registration	$1000/$100	$1,800/$180	$ 2.7	1980s
Secretary of State	Central Depository Wire Fees	$75-$300	varies	$ 13.1	N/A
Secretary of State	Drivers History	$6	$12	$ 36.0	N/A
Secretary of State	License Plate Auction			$ 15.0	New
Agency (Non-GRF)					
Secretary of State	BC Annual Report Filing Fee	$25	$75	$ 3.0	N/A
Secretary of State	Central Depository Wire Fees	$75-$300	varies	$ 1.9	N/A
Secretary of State	Personalized Plates	$78	$125 initally, $85 annual renewal	$ 9.0	N/A
			Total Fee Increases Over $1 Million	**$ 273.0**	**81%**
			GRAND TOTAL FEE INCREASES	**$ 337.9**	**of Total**

Source: Illinois State Office of Management and Budget

ADMINISTRATIVE SURCHARGES: $330 MILLION

- The State has 457 appropriated funds (597 total). These funds are created to pay for a specific purpose and receive earmarked revenues that are not used for any other purpose. The General Funds, in contrast, are used for any purposes the State requires.
- Other funds constitute 56% of the budget or $29.3 billion.
- Over time, the number of special purpose funds has increased. Currently, these funds have a $3 billion surplus. At the same time, the General Funds are in a deficit situation.
- The administration proposes to assess most "Other" funds a 5% fee to pay for the cost of administrative services provided by the State such as legal and accounting services that are currently paid for by the General Revenue Fund.
- These revenues will be transferred to the General Revenue Fund and are expected to generate $330 million in FY2004.

ELIMINATING CERTAIN TAX EXEMPTION $316 MILLION

The FY2004 budget proposes eliminating 16 different corporate tax exemptions.

EXEMPTION ELIMINATIONS IN FY2004 ILLINOIS STATE BUDGET (In Millions of Dollars)		
Sales Tax Exemptions		
Rolling Stock Exemption	$	94
Out-of-State Natural Gas Purchase Exemption	$	70
Non-Commercial Aircraft Exemption	$	26
Manufacturers Purchase Credit	$	21
Graphic Arts Machinery & Equipment Exemption	$	7
Interim Use Exemption	$	5
Coal, Oil & Distillation Equipment Exemption	$	3
Replacement Vehicle Exemption	$	2
Subtotal Sales Tax Exemption Elimination	**$**	**228**
Corporate Income Tax Exemptions		
Net Operating Loss Deduction Carryforward Reduction	$	20
Research & Development Credit	$	15
Training & Expense Credit	$	15
Life & Health Insurance Tax Offset	$	14
Foreign Insurace Rate Reduction	$	10
Replacement Tax Credit	$	9
Standard Exemption for Corporate Income Tax Filers	$	5
Subtotal Sales Tax Exemption Elimination	**$**	**88**
GRAND TOTAL	**$**	**316**

8 SALES TAX EXEMPTIONS ELIMINATED: $228 MILLION

These 8 activities have been exempt from the State's 5% sales tax. It is projected that $228 million can be saved if they are eliminated.

Rolling Stock Exemption $94 Million

- Exempts railroad cars and trucks delivering products from paying sales taxes
- Receipts from sales of tangible personal property sold to, or purchases by, interstate carriers for hire for use as rolling stock moving in interstate commerce or to lessors under leases of one year or more or longer executed or in effect at the time of purchase by interstate carriers for hire for use as rolling stock moving in interstate commerce, are exempt.
- Proceeds from sales to, or purchases by owners, lessors, or shippers of tangible personal property that is utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce, are exempt. Receipts from the sale, transfer, or purchase of tangible personal property as an incident to the rendering of service for interstate carriers for hire for use as rolling stock moving in interstate commerce or lessors under leases of one year or longer, executed or in effect at the time of purchase, to interstate carriers for hire as rolling stock moving in interstate commerce, are exempt.
- Proceeds from the sale, transfer, or purchase of tangible personal property as an incident to the rendering of service for owners, lessors, or shippers of tangible personal property which is utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce, are exempt.
- The rolling stock exemption applies to rolling stock used by an interstate carrier for hire, even just between points in Illinois, if the rolling stock transports, for hire, persons whose journeys or property whose shipments originate or terminate outside Illinois.

Purchase of Natural Gas Out-of-State Exemption: $70 Million

- Natural gas purchased out-of-state is presently tax exempt.
- However, natural gas purchased in state is taxed at a rate of 5% or 2.4 cents per therm, whichever is less

Non-Commercial Aircraft Exemption $26 Million

- The sale of non-commercial aircraft is currently tax exempt.

Manufacturers Purchase Credit $21 Million

- Manufacturers, purchasing machinery & equipment qualifying for a 100% sales tax exemption and earn an additional use tax credit to offset sales tax due on purchases of production related tangible personal property.
- Credit is earned at the rate of 6.25% of 15% of the tax that would otherwise have been due on 100% exempt purchases between 1/1/95 -- 6/30/95; 25% on purchases between 7/1/95 -- 6/30/96; 40% on purchases between 7/1/96 -- 6/30/97; and 50% on purchases made 7/1/97 and after.

Graphic Arts Machinery & Equipment Exemption **$ 7 Million**

- Sales and purchases of graphic arts machinery and equipment, including repair and replacement parts, both new and used, and including that manufactured on special order or purchased for lease, certified by the purchaser to be used primarily for graphic arts production, are exempt.
- Returns for a cross section of related businesses are used to calculate average amounts of reported deductions against reported gross receipts. These averages are then used to calculate estimated deductions.

Interim Use Exemption **$ 5 Million**

- Interim use of tangible personal property. This exemption is available to purchases of all tangible personal property used under this provision of law.
- Some specific interim use exemptions are reported on ST-556 tax returns and RUT-25 Vehicle Use Tax returns when vehicles purchased by auto dealers are titled and registered by the dealer in order that standard license plates are applied.

Coal, Oil & Distillation Equipment Exemption **$3 Million**

- Exempts sales or purchases of coal and aggregate exploration, mining, offhighway, and reclamation equipment and replacement parts; distillation machinery or equipment sold as a unit or kit for production of ethyl alcohol for use as motor fuel; and oil field exploration, drilling, and production equipment and replacement parts.

Replacement Vehicle Exemption **$ 2 Million**

- Exempts proceeds of that portion of the selling price of a passenger car, the sale or purchase of which is subject to the Replacement Vehicle Tax.

7 CORPORATE INCOME TAX EXEMPTIONS ELIMINATED: $88 MILLION

Currently, certain corporations and corporate activities are eligible for exemptions from or credits against the State's corporate income tax.

Net Operating Loss Deduction Carryforward Reduced $20 Million

- Net Operating Loss deduction limited to a 5-year carryforward.
- Currently, taxpayers may have a negative base income after applying all the various modifications in section 203(b). This negative base income is apportioned and is a net operating loss allocable to Illinois. Effective for tax years beginning on August 6, 1997, NOLs can be carried back 2 years and can be carried forward 20 years. Prior to August 6, 1997, NOLs could be carried back 3 years and forward 15 years.

Research & Development Credit $15 Million

- This tax credit is provided to taxpayers for increasing research activities in Illinois.
- The credit is 6.5% of qualifying expenditures for increasing research activities in Illinois.
- If the credit amount exceeds tax liability, then the excess credit amount can be carried forward five tax years.

Training Expense Credit $15 Million

- This tax credit is provided to taxpayers that pay for educational or vocational training on behalf of individuals employed in Illinois or residents of Illinois employed outside of Illinois.
- The credit is 1.6% of training expenses.
- If the credit amount exceeds tax liability, then the excess credit amount can be carried forward 5 tax years.

Life & Health Insurance Tax Offset $14 Million

- Assessments paid to the Life and Health Insurance Guarantee Association (LHIGA) and Health Maintenance Organization Guaranty Association in excess of $3 million aggregate are allowed as a tax offset against Illinois income tax liabilities.
- The Association's collections are paid by all Life and Accident Insurance companies for the benefit of policyholders and creditors of insolvent Life and Accident Insurance companies.

Foreign Insurance Rate Reduction $10 Million

- In the case of a foreign insurer, the sum of the rates of the corporate income tax and the personal property tax replacement income tax shall be reduced to the rate of tax imposed on and measured by net income by the state or country in which the insurer is domiciled.
- The reduction may not reduce the corporate income tax and personal property tax replacement income tax to an amount that causes the total amount of taxes due from a foreign insurer for any taxable year to be less than 1.25% of the net taxable premiums written in Illinois.
- Those taxes are the sum of taxes collected for: the income and property replacement taxes (Section 201 of the Income Tax Act); privilege taxes (Section 409 of the Insurance Code); fire insurance company tax (Section 12 of the Fire Investigation Act); and the fire department tax (Section 11-10-1 of the Municipal Code), to be less than 1.25% of the net taxable premiums written.

- In the case of an insurer taking a reduction, the corporate income tax will be reduced first, with only the excess reduction, if any, reducing the personal property replacement tax.
- The purpose of this tax expenditure was to benefit Illinois domiciled companies by reducing the retaliatory taxes they would owe in other states.

Replacement Tax Credit $ 9 Million

- The Illinois Income Tax Act provides a credit against income tax liabilities for replacement taxes paid.
- The credit is apportioned net replacement taxes paid multiplied by the income tax rate imposed.
- If the credit exceeds income tax liability in the year it was earned, then the excess credit amount can be carried forward five tax years to be used against future income tax liabilities.

Standard Exemption for Corporate Income Tax Filers $ 5 Million

- Corporate taxpayers currently are allowed the same standard exemption in determining net income as individuals.

GAMING TAXES: $160 MILLION

- Gaming taxes and fees will be increased to generate an additional $160 million.
  - Boats with adjusted gross receipts over $250 million will pay a surcharge of 20% on profits over $250 million. This will increase the tax from a 50% to a 70% rate.
  - The head tax on gaming boats will be raised from $3 to $5 to raise an additional $38 million.

INHERITANCE TAX CHANGE: $35 MILLION

- Decoupling the Illinois State Inheritance Tax from the federal inheritance tax will increase revenues by $35 million. This action will affect estates valued at $2 million or more.

LIQUOR TAXES $32 MILLION

- Liquor distributors will be required to prepay liquor taxes. They will then receive a credit equal to the amount of the prepaid tax. This will generate $32 million.

OUT-OF-STATE TUITION: $20 MILLION

- Illinois public universities will increase out-of-state tuition fees to generate an additional $20 million per year.

REDUCTION IN REFUND FUND INTEREST: $11 MILLION

- Reducing the interest paid to refunds in the Refund Fund to 3% will generate $11 million.

B. Appropriations

MAJOR SPENDING INCREASES

Appropriation Increases:	$ millions
K-12 education foundation level increased by $250 to $4,810 per pupil.	$ 235
Additional funds for in-home care of individuals with disabilities or serious illnesses	$ 56
Additional funds for the FamilyCare and KidCare programs.	$ 26
Reopening of Sheridan Prison as a model drug rehabilitation center	$ 24
Videotaping and audiotaping of confessions statewide.	$ 9
14% increase in number of parole officers	$ 6
Additional funding for breast and cervical cancer research	$ 2
Total	**$ 358**

Expenditure Gap-Closing Measures

Quantied Cost Savings:	$ millions
Department of Central Management Services	$ 260
Reductions from public university budgets.	$ 202
Eliminating some of the state's pick up of employee pension contributions	$ 28
Consolidating 11 agencies into 5, merging together 8 bonding authorities and consolidating workforce development programs	$ 21
Freezing merit employee salary increases	$ 14
15% reduction in admistrative costs / 2% GRF reserves	$ 147
Total	**$ 673**
Non-Quantified Cost Saving Efforts:	
Only 39% of positions vacated by early retirement initiative filled since FY2002.	
Consolidation of Fee Collection in the Department of Revenue	
Fiscal Reforms	

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES $260 MILLION

By executive order, the Governor has directed the Department of Central Management Services to implement 11 different management initiatives. These programs are projected to yield net savings of approximately $260 million in FY2004. They will require investments totaling $37 million.

CMS INITIATIVES FY2004

Initiative	FY04 Savings	Investment	FY04 Net Savings
Vehicle Freeze	$ 8,473,000	$ -	$ 8,473,000
Government Accountability	$ -	$ -	$ -
Inspector General	$ -	$ 1,126,000	$ (1,126,000)
Ethics Training Program	$ -	$ 3,000,000	$ (3,000,000)
Procurement	$ 109,302,633	$18,000,000	$ 91,302,633
Information Technology	$ 35,000,000	$15,000,000	$ 20,000,000
Special Drug Advocate	$ 120,000,000	$ 200,000	$ 119,800,000
Legal Services Consolidation	$ 5,500,000	$ -	$ 5,500,000
Internal Audit Consolidation	$ 5,000,000	$ -	$ 5,000,000
Facilities Management Consolidation	$ 14,000,000	$ -	$ 14,000,000
Shared Office Service Centers	N/A	N/A	N/A
Total	**$ 297,275,633**	**$37,326,000**	**$ 259,949,633**

Vehicle Freeze and Improved Fleet Management

- The Governor froze vehicle purchases across all state agencies and directed CMS to reduce the State's vehicle fleet and operating costs
- CMS will reduce the State's vehicle fleet by 2,000+ vehicles after a review of existing fleets. The purpose of the review is to assign vehicles only to personnel involved in providing direct services, such as patrol officers.
- This initiative is projected to save $11.4 million in FY2003 and FY2004.

Procurement Consolidation

- Currently, the State spends more than $12 billion annually on goods and services. However, the State's purchasing processes are decentralized and cumbersome. For example:
  - 650 different vendors provide software resulting in incompatible computer systems;
  - 150 different vendors provide computer consulting services, with rates for the same job classification varying by as much as 300%.
- By using strategic sourcing techniques that will centralize and coordinate State purchasing efforts in the Department of Central Management Services, the State projects net savings of $91 million in FY2004.
- Implementing a streamlined procurement process will require an investment of $18 million.

Information Technology Initiative

- Illinois spends over $640 million annually on technology. This includes spending for personnel, infrastructure and vendors.
- Currently the State IT system is highly decentralized. The consequence is a duplication of investments between agencies and higher overall IT costs.
- The state will save $20 million in FY2004 by eliminating redundant technology costs and optimizing existing operations; and consolidating and standardizing the use of technology applications and contracts.

Special Drug Advocate

- The State purchases over $1.7 billion in prescription drugs annually. The drugs are provided through the Department of Public Aid and 8 other agencies.
- Special Drug Advocate will work to lower the price the State pays to prescription drugs by consolidating drug purchases in one contract, negotiating for increased rebates with drug vendors and increasing generic drug use.

Consolidation of Legal, Auditing and Facilities Management Services

- Currently, individual agencies have separate legal, auditing and facilities management functions and personnel. The Governor has ordered the following consolidations:
    - All internal auditors will be consolidated within the Department of Central Management Services.
    - Agency legal work related to personnel, procurement, bond financing and other common legal issues would be relocated to CMS. Some policy-related legal staff will remain with the agencies.
    - Facilities management operations and personnel will be consolidated within CMS.

Shared Office Service Centers

- Smaller state agencies will share office space, technology, equipment and administrative staff (including payroll, accounting, human resources, purchasing and information technology).

Government Accountability Initiatives

- An Office of Inspector General has been created in CMS to investigate allegations of fraud, waste and other illegal actions.
- All State employees will be required to take a Web-based ethics training program.
- These two efforts will cost $4.1 million in FY2004 and will be paid for from a portion of the savings generated by the consolidation of the internal audit function.

STATE UNIVERSITY BUDGETS $202 MILLION

The State budget summaries identify $154 million in direct reductions to the Higher Education portion of the recommended appropriations. However, when all funds are analyzed a total of $202 million has been identified for reallocation to the following initiatives:

- Contributions to state deficit reduction.
- Keeping tuition costs down.
- Core instructional activities.

STATE EMPLOYEE PENSION CONTRIBUTIONS $28 MILLION

For the last 12 years, the State has paid the employee's share of contributions to the pension fund system for most employees. This "pick-up" of payments to the retirement funds means that most State employees contribute nothing to their retirement benefits.

- If this practice were to continue it would cost the State $109 million in FY2004.
- The budget eliminates the "pick-up" for merit employees only (i.e. only those employees not covered by a collective bargaining agreement.

AGENCY MERGERS $21 MILLION

The State budget contains several mergers and reorganizations for FY2004 that have the potential to create efficiencies and cost savings over the long-term.

- The State estimates that these mergers will save approximately $21 million in FY2004.
- $5 million of these savings will be generated from reduced headcount resulting from agency mergers.
- $16 million in savings will accrue from the consolidation of workforce development programs in the Department of Commerce and Economic Opportunity.

  - **Department of Commerce and Economic Opportunity:** Known as the Department of Commerce and Community Affairs until January 2003, DCEO will have the Prairie State 2000 Authority (formerly an independent agency classified under Economic Development and Infrastructure) consolidated with it. Also brought into the DCEO is the Department of Employment Security's Workforce Development Program.

  - **Department of Insurance:** The Comprehensive Health Insurance Program (for uninsurable individuals) is consolidated into the DOI.

  - **Department of Public Health:** The Illinois Health Care Cost Containment Council, formerly an independent agency, is merged into the DPH.

  - **Department of Revenue:** The DOR, which is classified under Government Services, assumes the responsibilities of three formerly independent agencies – the Illinois Racing Board, the Department of Lottery, the Liquor Control Commission.

  - **Environmental Protection Agency:** The operations of the Illinois Pollution Control Board and the Environmental Protection Trust Fund Commission are merged into the EPA.

  - **Illinois Emergency Management Agency:** The Department of Nuclear Safety will be merged with EMA.

  - **Illinois Labor Relations Board:** The Education Labor Relations Board is merged with the Labor Relations Board.

  - **Illinois State Finance Authority:** The Health Facilities Authority, the Development Finance Authority, the Educational Facilities Authority, the Farm Development

Authority, the Rural Bond Bank, the Research Park Authority, the State Parks Revenue Bond Commission, and the Community Development Finance Commission will all be merged into the ISFA.

FREEZING PAY INCREASES $14 MILLION

Merit employees (those not covered by a collective bargaining agreement) will not be given pay increases this year. In addition, neither the Governor nor his Cabinet will receive a pay raise.

CONSOLIDATION OF FEE COLLECTIONS IN THE DEPARTMENT OF REVENUE

- The State of Illinois collects almost 1,500 non-tax fees. Agencies under the Governor collect 673 of these fees, totaling 75 million transactions and $1.6 billion in annual revenue.
- By executive order, the Governor has directed the Department of Revenue to consolidate fee collections for agencies under his jurisdiction. The first phase of this project will be to consolidate fee remittance processing functions and activities.
- Under this initiative, the Department will:
    - Assure full compliance with fee requirements
    - Standardize and distribute payment technologies and forms to agencies
    - Receive, record and deposit payments with an automated, centralized system
    - Notify agencies of payment credits
    - Track, prioritize and collect late payments with greater focus than agencies
    - Monitor fee levels to provide market analysis for user services
- Cost savings will accrue over time due to implementation of management efficiencies and consistent staff scheduling

FISCAL REFORMS

Reserves: Agencies under the Governor will be required to reserve 2% of their General Funds budgets in budget allocations and allot the balance each quarter.

Multi-Year Financial Plan: The State will create MYP that will encompass multi-year projections of revenues, expenditures and debt.

Performance-Based Budgeting: By 2005, the State will develop and implement a performance-based budget that allocates funds in conformance with the state's priorities and agency performance.

Capital Improvement Program (CIP): The state will develop a multi-year CIP. The capital planning function will be transferred to the Office of Management and Budget.

C. Long-Term Obligations

Public Act 093-0002 Authorizes $10 Billion Pension Obligation Bond Issue

Governor Blagojevich signed Public Act 093-0002 on April 7, 2003 authorizing the issuance of $10 billion of Pension Obligation Bonds. The proceeds of these bonds will be used to fund current and future unfunded liabilities of the State's five pension funds.

The objective of the statute is to increase assets in the pension funds. The funds' managers estimate that the funds will earn investment income at a long-term actuarial rate of 8.5% over the 30-year life of the bonds. The State projects that economic savings will result from issuing the $10 billion in bonds at the current market rate of 6%, while the funds earn that long-term actuarial rate of 8.5%.

The Civic Federation **supported** Governor Blagojevich's proposal to issue long-term debt to meet the State's past pension obligations. A great deal of the pressure to meet the State pension obligations is a result of the 1995 State Pension Reform Law, which established a 50 year schedule of funding requirements to compensate for the State's previous years of under-funding the pension plans. The Civic Federation has traditionally cautioned governments against using long-term debt to address budget shortfalls, however, the Federation recognizes the extraordinarily difficult financial position of Illinois and most other state governments. As a result of the dire budget conditions of the State, past funding inadequacies, and the current historically low interest rates,

However, The Civic Federation strongly warned against the practice of debt financing to correct ordinary budget shortfalls or to fund normal operations, which would traditionally include current pension obligations. The Civic Federation's support of the Governor's pension obligation bond proposal was tied to our acknowledgment that the State's pension obligations are compounding dramatically because of past failures to adequately fund the pension plans on a continuing basis.

While supporting the Governor's use of pension obligation bonds, The Civic Federation offered the following concerns and suggestions:

- Projecting that the State's pension funds will earn investment returns of 8% or more is optimistic in light of current and foreseeable market performance.
- The General Assembly and the public at large should be aware that this financial strategy would not eliminate all the problems associated with the funding of State pensions.
- The Civic Federation strongly encourages the General Assembly to be mindful of the benefit levels granted to employees.
- The General Assembly should seriously consider extending the maximum permitted maturity of its debt to match the economic life of the objects secured by its expenditures.
- The State should also consider authorizing cost effective, contemporary borrowing techniques such as variable rate obligations.

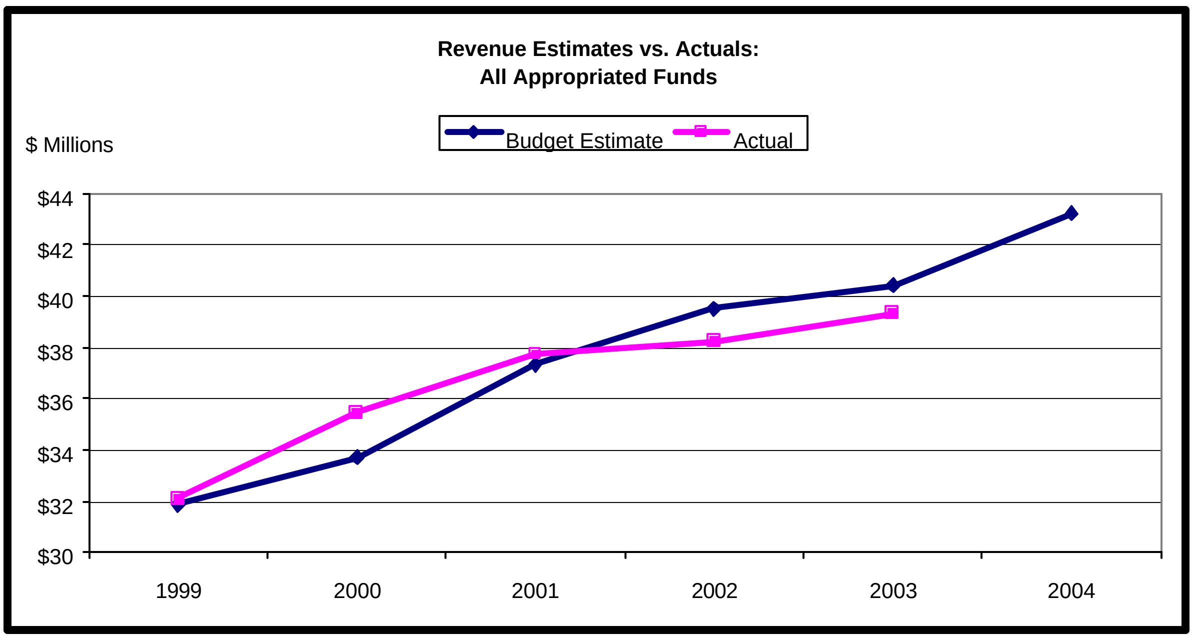
II. TREND ANALYSIS

A. Revenues

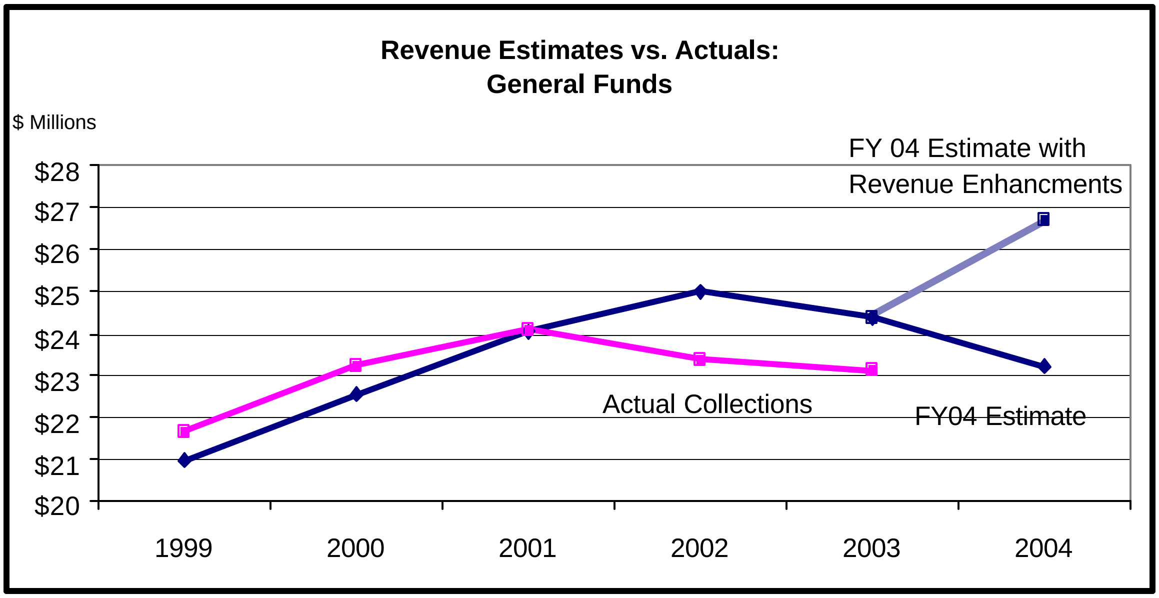
For each fiscal year the State budget estimates the amount of revenue that will be available for appropriations. Projections are made for both All Appropriated Funds and General Funds.

5-YEAR REVENUE TREND: BUDGET vs. ACTUAL

The amounts for All Appropriated Funds do not match the total appropriation because there are certain funds that are re-appropriated on an ongoing basis. However, these figures do include all the various revenue sources for the State. Between 1999 and 2001more revenue than anticipated was raised. The high point was in FY2000, when $1.7 billion more than anticipated was raised. In FY2002 and FY2003 actual collections are below the estimates by $1.3 billion and $1.1 billion respectively. For FY2004, the estimated figure of $43.2 billion includes the proposed revenue enhancements.



General Funds revenues account for approximately two-thirds of total State revenues. For the General Funds, the comparison of revenue estimates to actual collections demonstrates the same trend as exists for All Appropriated Funds, but the shortfalls in FY2002 and FY2003 are greater. In those two years, estimated revenue exceeded actual collections by $1.6 billion and $1.2 billion respectively. For FY2004, not including the proposed revenue enhancements, the revenue estimate will approach the actual collections projected for FY2003. With the proposed revenue enhancements, an additional $3.5 billion will be added to the estimates.



5-YEAR TREND: REVENUE SOURCES

The anticipated 35% growth between FY1999 and FY2003 in All Appropriated Funds is due in large part to strong growth in non-tax sources of revenue. Motor Vehicle Fees and Intergovernmental Payments experienced the largest percentage increases between FY1999 and FY2004. Group Insurance Receipts also increased substantially. However, the largest increase both in terms of percentages and dollar amounts came in the Other category.

The overall growth rate for State Taxes is 9%. Approximately one-half of the 15% increase in Sales Tax Revenue occurs between FY2003 and FY2004 because the estimates include revenue from the proposed revenue enhancement measures. The proposed increase in Riverboat Taxes also accounts for most of the increase in that category. The tax rates on both cigarettes and liquor were increased between FY1999 and FY2004 accounting for most of their increase.

Analyzing the 5-year trend – without the proposed revenue enhancements – reveals a 7% overall increase in General Fund revenues between the FY1999 actual collections and the FY2004 estimates.

All Appropriated Funds: Revenues by Source $ millions			
Sources of Revenue	**FY1999 Actual**	**FY2004 Estimated**	**% Change**
State Taxes:			
Income Taxes	$8,347	$8,142	-2%
Individual	$7,226	$7,277	1%
Corporate	$1,121	$865	-23%
Sales Taxes	$6,170	$7,078	15%
Motor Fuel Tax	$1,329	$1,412	6%
Public Utility Taxes	$1,121	$1,285	15%
Cigarette Taxes	$499	$665	33%
Liquor Taxes	$57	$125	119%
Inheritance Tax	$347	$215	-38%
Insurance Taxes & Fees	$239	$340	42%
Horse Racing Taxes and Fees	$42		
Riverboat Taxes	$362	$915	153%
Corp. Franchise Taxes & Fees	$117	$170	45%
Total State Taxes	**$18,630**	**$20,347**	**9%**
Other Receipts:			
Motor Vehicle Fees	$758	$1,290	70%
Interest Income	$297	$140	-53%
Revolving Fund Receipts	$267	$290	9%
Lottery	$847	$850	0%
Assessment Funds Receipts	$76	$70	-8%
Intergovernmental Payments	$763	$1,545	102%
Group Insurance Receipts	$890	$1,630	83%
Tobacco Settlement Receipts	$0	$270	
Riverboat Gaming License Sale	$0	$350	
Other	$620	$1,418	129%
Total Other Receipts	**$4,518**	**$7,853**	**74%**
TOTAL STATE SOURCES	**$23,148**	**$28,200**	**22%**
Federal Receipts	$8,284	$11,569	40%
G.O. Bond Receipts	$601	$3,223	436%
Build Illinois Bond Receipts	$60	$250	317%
TOTAL ALL SOURCES	**$32,093**	**$43,242**	**35%**

Overall income taxes have decline by 3% or $270 million. Although individual income taxes grow by 1% or $56 million over the five-year period, there has been a $321 million decrease in corporate income taxes. Multiple factors contribute to this 29% decrease, including diminished corporate profits due to a declining stock market and struggling economy as well as the implementation of the single-sales factor in Illinois for calculating corporate income tax liability. Sales taxes increase by $671 million. Liquor taxes increased substantially due almost entirely to the increases in the tax rates adopted as part of Illinois FIRST in 1999. Similarly, riverboat gaming taxes increased significantly as a result of increases in the graduated tax rate implemented in 2002. The $167 million decline in inheritance taxes is due to the 2001 federal legislation phasing out the federal estate tax by 2010. The category of other revenue sources includes miscellaneous taxes and fees, intergovernmental payments and transfers from the Build Illinois escrow account. For this category, the largest increases occurred between FY2000 and FY2002 when the actual revenues increased by 67%.

General Funds Revenues by Source (Fiscal Years- $ millions)			
Sources of Revenue	**1999 Actual**	**FY 2004**	**% Change**
Income Taxes	$8,347	$8,077	-3%
Individual	$7,226	$7,277	1%
Corporate	$1,121	$800	-29%
Sales Taxes	$5,609	$6,280	12%
Public Utility Taxes	$1,019	$1,035	2%
Cigarette Taxes	$403	$400	-1%
Liquor Gallonage Taxes	$57	$125	119%
Inheritance tax	$347	$180	-48%
Insurance Tax and Fees	$208	$300	44%
Corporate Franchise Taxes & Fees	$117	$170	45%
Interest on State Funds & Investments	$212	$100	-53%
Intergovernmental Transfer (IGT)	$218		
Other Tax Sources	$228	$746	227%
Transfers-In:			
Lottery	$540	$560	4%
Riverboat Gaming Taxes	$240	$585	144%
Other transfers	$411	$415	1%
Total, State Sources	**$17,956**	**$18,973**	**6%**
Federal Aid	$3,718	$4,245	14%
Total Revenues	**$21,674**	**$23,218**	7%

GENERAL FUND REVENUE PROJECTIONS

The importance of accurate revenue projections in the budgeting process can be seen from the impact of lower than anticipated revenues during the last two fiscal years. The revenue projections used by the Bureau of the Budget for FY2004 are based on historical collection trends and econometric modeling. The percentage change over FY2003 is based on the estimates of total collections when the fiscal year closes in June. This section compares those projections with the latest projections from the Illinois Economic and Fiscal Commission as well as with some comparable projections from the City of Chicago's FY2003 budget.

The Illinois Economic and Fiscal Commission is a bipartisan, joint legislative commission that provides the General Assembly with annual revenue projections and periodic updates. The figures presented below are from March 2003 with revisions to the income tax, Cook County intergovernmental transfer (IGT), and federal sources lines resulting from specific provisions within the proposed budget. In particular, the income tax projections were revised upward because of the proposed contributions to the Income Tax Refund Fund. The Commission also adopted the Bureau of the Budget's Cook County IGT and federal sources figures because the Bureau of the Budget has more accurate information regarding these amounts.

While the City of Chicago has a different fiscal year and a substantially different revenue structure, its projections for revenue sources that it has in common with the State can also be informative. Income and sales tax projections are dependent upon economic activity that is roughly comparable between the State and the City. Utility, liquor and cigarette taxes depend primarily on consumption patterns and therefore the percentage changes should be comparable. The projections presented below are for the City's FY2003, which overlaps the State's last six months of FY2003 and first six months of FY2004.

Income Taxes: While there is consistency in predictions of declines in total income tax collections, the budget anticipates a 6.2% increase in corporate sales tax collections. The figure is based on the Council of Economic Advisors' projected growth rate of 10% in before tax corporate earnings. The Economic and Fiscal Commission utilizes a 6.5% increase in gross corporate income taxes and assumes that the growth is muted as a result of the net operating loss carry forward provisions.

Sales Taxes: The budget's prediction of 3.8% growth in sales tax collections is consistent with the Economic and Fiscal Commission, but counter to the predictions of the City of Chicago. While increases of over $200 million in State sales tax collections are possible, a more conservative prediction would be for a continuation of the negligible growth of the last two years.

Total Revenues: The budget anticipates $172 million more in revenues than the Economic and Fiscal Commission before inclusion of any additional revenues. In addition to higher estimates of corporate income and sales taxes, the budget anticipates greater revenue from the inheritance tax, corporate franchise taxes, and interest earnings.

FY 2004 General Funds Estimate
($ million)

	Bureau of the Budget		Economic & Fiscal Commission		City of Chicago
Revenue Sources	**Estimate FY 2004**	**% Change from Estimated FY 2003**	**Revised Estimate FY 2004**	**% Change from Estimated FY 2003**	**FY 2003 Estimated Change**
State Taxes					
Personal Income Tax (Net)	$7,277	-1.6%	$7,258	-0.8%	-1.7%
Corporate Income Tax (Net)	$800	6.2%	$688	-0.7%	-1.7%
Sales Taxes	$6,280	3.8%	$6,236	3.5%	-0.8%
Public Utility Taxes (regular)	$1,035	0.0%	$1,042	1.7%	3.7%
Cigarette Tax	$400	0.0%	$400	0.0%	-2.3%
Liquor Gallonage Taxes	$125	0.0%	$126	0.8%	1.1%
Inheritance Tax (Gross)	$180	-25.0%	$160	-36.0%	
Insurance Taxes and Fees	$300	0.0%	$315	3.3%	
Corporate Franchise Tax & Fees	$170	3.0%	$145	3.6%	
Interest on State Funds & Investments	$100	42.9%	$78	20.0%	
Other Sources	$746	-3.7%	$753	-10.0%	
Subtotal	$17,413	0.6%	$17,201	0.1%	
Transfers					
Lottery	$560	0.0%	$560	0.0%	
Gaming Fund Transfer	$585	1.7%	$590	0.0%	
Other	$415	-30.8%	$450	-30.8%	
Total State Sources	$18.973	-0.4%	$18.801	0.9%	
Federal Sources	$4,245	4.2%	$4,245	-2.2%	
Total Federal & State Sources	$23,218	0.4%	$23,046	0.3%	4.0%

B. Appropriations

The deficit currently experienced by the State of Illinois was not created overnight. Between FY1999 and FY2004 State appropriations have grown faster than revenues, especially in the General Funds. Total appropriations, which include recurring appropriations and designated funds, grew by 37% while total revenues grew by only 35%. Over the same five-year period, the General Funds' appropriations grew by 18% while revenues grew by only 7%.

Primary Deficit Drivers

- The combined FY2003 & FY2004 deficit was $5.2 billion.
- Revenues have lagged projections. In FY2003, revenues actually generated have fallen $1.2 billion short of original projections.
- Medicaid expenditures will increase by $580 million in FY2004. Medicaid liability has increased 41% since 1999. Increases result from expanding enrollments, increased drug costs and health care inflation.
- Health insurance expenditures for current and retired employees will rise $158 million in FY2004, from $660 million to $818 million. The cost of health insurance has doubled since 1998.
- Pension fund contributions increased to $1.9 billion in FY03-FY04
- Overall, spending has increased by 46.6% since 1998.

APPROPRIATION TRENDS

The FY2004 budget demonstrates two trends in appropriations:

- Increasing the movement of funding from the General Funds to Other Funds,
- Decreases in operating costs being offset by increases of grants in aid.

The movement away from funding a significant portion of the State budget out of the General Funds began under the Ryan administration, but has been increased in the FY2004 budget. This process matches specific revenues with specific projects and diminishes the subsidizing of programs from general taxes. The trend between FY2003 and FY2004 also shows that appropriations for operations decline dramatically. However, because the dollar amounts are considerably less than the amounts appropriated for grants in aid, the comparatively small percentage increases in grants in aid overwhelm the cuts in operations.

5-YEAR TREND: APPROPRIATIONS

While total appropriations have increased by $14.2 billion or 37%, General Fund appropriations have increased by only $3.5 billion or 18%. The difference of $10.7 billion in increased appropriations exists in the Other Funds, which range from the Road Fund to the Salmon Fund. The primary purpose of these funds is to receive either tax revenue distributions or specific revenues such as permit and license fees, which are dedicated to specific projects. A contributing factor in this increase was the Illinois FIRST program, which dedicated substantial funds to construction projects. Nearly 80% of the increase in appropriations for Departments under the Governor and over 50% of the increase in total appropriations, or $7.8 billion, came from non-General Funds sources.

ILLINOIS STATE APPROPRIATIONS: FY99 & FY04					
		FY1999		FY2004	% Change
Legislative Agencies	**$**	**71,930**	**$**	**91,253**	**27%**
General Revenue	$	59,100	$	73,208	24%
Other Funds	$	12,829	$	18,045	41%
Judicial Agencies	**$**	**288,592**	**$**	**368,690**	**28%**
General Revenue	$	272,673	$	346,619	27%
Other Funds	$	15,919	$	22,071	39%
Elected Officials	**$**	**1,354,170**	**$**	**1,624,099**	**20%**
General Revenue	$	233,594	$	257,541	10%
Other Funds	$	1,120,576	$	1,366,558	22%
Departments	**$**	**24,075,011**	**$**	**33,779,912**	**40%**
General Revenue	$	11,627,674	$	13,581,741	17%
Other Funds	$	12,447,337	$	20,198,171	62%
Other Agencies	**$**	**3,433,556**	**$**	**5,220,737**	**52%**
General Revenue	$	269,400	$	136,000	-50%
Other Funds	$	3,164,156	$	5,084,737	61%
Elementary & Secondary Education	**$**	**6,705,656**	**$**	**8,548,729**	**27%**
General Revenue	$	5,182,802	$	6,350,270	23%
Other Funds	$	1,522,854	$	2,198,459	44%
Higher Education	**$**	**2,536,341**	**$**	**2,962,710**	**17%**
General Revenue	$	2,222,721	$	2,397,275	8%
Other Funds	$	313,620	$	565,435	80%
TOTAL	**$**	**38,465,255**	**$**	**52,596,129**	**37%**
General Revenue	$	19,867,967	$	23,142,653	16%
Other Funds	$	18,597,288	$	29,453,476	58%
Governor's Initiatives	$	-	$	(195,573.0)	
GRAND TOTAL	**$**	**38,465,255**	**$**	**52,400,556**	**36%**

While some of the FY2004 management initiatives outlined in Section I have impacted the location of certain programs and Departments within the appropriation categories, comparisons between FY1999 and FY2004 remain largely valid. The largest percentage increase in appropriations occurred within the State Employee's Retirement System appropriations, which increased by 77% over five years. The largest dollar increase occurred in the category of Human Services, which increased by $4.4 billion in five years. Other areas of large increases occurred in the categories of Government Services, Economic Development & Infrastructure, and Elected Officials.

The significant increase in Human Services appropriations can be traced to Grants in Aid distributed by the Department of Public Aid. The Department of Public Aid grew from 50% to 58% of the Human Services budget between FY1999 and FY2004. Almost the entire amount of this $3.6 billion increase occurred in the Grants in Aid portion of its budget, not in Operations or Refunds. While Operations increased by 25%, Grants in Aid increased by 62%. And within the Grants in Aid category, over 80% of the increase can be traced to three line items: County Hospital Services, Hospital In-Patient Services, and Prescription Drugs.

FUNCTION	FY1999	FY2004	Change	% Change
Human Services	$ 12,574	$ 16,966	$ 4,393	35%
Department of Public Aid	$ 6,168	$ 9,853	$ 3,685	60%
Department of Human Services	$ 4,469	$ 4,990	$ 521	12%
Department Children & Family Services	$ 1,392	$ 1,377	$ (16)	-1%
Department of Aging	$ 251	$ 330	$ 79	31%
Department of Public Health	$ 201	$ 320	$ 119	59%
Department of Veterans Affairs	$ 62	$ 78	$ 16	25%
Guardianship & Advocacy Commission	$ 7	$ 9	$ 1	16%
IL Violence Prevention Authority		$ 5	$ 5	
IL Council on Developmental Disabilities	$ 5	$ 4	$ (0)	-10%
IL Deaf & Hard of Hearing Commission	$ 0	$ 1	$ 0	112%
Eliminated Programs	$ 17		$ (17)	-100%
Total	$ 12,574	$ 16,966	$ 4,393	35%
** Eliminated: Comprehensive Health Insurance Plan & IL Health Care Cost Containment Council ** Added: IL Violence Prevention Authority				
Department of Public Aid	$ 6,168	$ 9,853	$ 3,685	60%
Operations	$ 303	$ 378	$ 75	25%
Grants in Aid	$ 5,856	$ 9,471	$ 3,614	62%
Refunds	$ 9	$ 5	$ (4)	-48%
Adjustment - Transferred Programs				
Total	$ 6,168	$ 9,853	$ 3,685	60%
Grants in Aid - Detail				
County Hospital Services	$ 964	$ 1,981	$ 1,018	106%
Medical Assistance - Hospital In-Patient, etc.	$ 1,237	$ 2,255	$ 1,018	82%
Medical Assistance - Long-Term Care, etc.	$ 1,032	$ 1,652	$ 620	60%
Medial Assistance - Prescription Drugs	$ 653	$ 1,647	$ 994	152%
Medical Assistance - Physicians	$ 319	$ 514	$ 195	61%
All Other	$ 1,964	$ 1,804	$ (160)	-8%
Total	$ 6,168	$ 9,853	$ 3,685	60%

1-YEAR TREND: APPROPRIATIONS

While total Appropriations decrease by $345 million between FY2003 and FY2004, General Fund appropriations increase by $780 million. The difference between the two figures is a $930 million decrease in Other Funds appropriations and a $195 million decrease in appropriations from the Governor's initiatives. Although this appears to contradict the shifting trend toward relying on non-General Funds for funding programs, several factors must be kept in mind. First, the decline in Other Funds appropriations is the result of the ending of the Illinois FIRST program. Second, large Grants in Aid from the General Funds in the categories of Elementary &

Secondary Education and Human Services overwhelmed many of the cuts in Operating appropriations taking place. Finally, the management reforms and revenue restructuring proposed in the budget are not fully implemented.

ILLINOIS STATE APPROPRIATIONS: FY03 & FY04					
		FY2003		FY2004	% Change
Legislative Agencies	**$**	**90,809**	**$**	**91,253**	**0%**
General Revenue	$	72,579	$	73,208	1%
Other Funds	$	18,230	$	18,045	-1%
Judicial Agencies	**$**	**363,500**	**$**	**368,690**	**1%**
General Revenue	$	340,735	$	346,619	2%
Other Funds	$	22,765	$	22,071	-3%
Elected Officials	**$**	**1,551,695**	**$**	**1,624,099**	**5%**
General Revenue	$	260,355	$	257,541	-1%
Other Funds	$	1,291,340	$	1,366,559	6%
Departments	**$**	**33,748,111**	**$**	**33,779,912**	**0%**
General Revenue	$	12,846,318	$	13,581,741	6%
Other Funds	$	20,901,793	$	20,198,172	-3%
Other Agencies	**$**	**5,635,512**	**$**	**5,220,737**	**-7%**
General Revenue	$	203,072	$	136,000	-33%
Other Funds	$	5,432,440	$	5,084,737	-6%
Elementary & Secondary Education	**$**	**8,239,231**	**$**	**8,548,729**	**4%**
General Revenue	$	6,143,587	$	6,350,270	3%
Other Funds	$	2,095,644	$	2,198,459	5%
Higher Education	**$**	**3,116,753**	**$**	**2,962,710**	**-5%**
General Revenue	$	2,496,076	$	2,397,275	-4%
Other Funds	$	620,677	$	565,435	-9%
TOTAL	**$**	**52,745,611**	**$**	**52,596,130**	**0%**
General Revenue	$	22,362,722	$	23,142,654	3%
Other Funds	$	30,382,889	$	29,453,478	-3%
Governor's Initiatives			$	(195,573.0)	
GRAND TOTAL	**$**	**52,745,611**	**$**	**52,400,557**	**-1%**

Between FY2003 and FY2004, a number of the appropriation categories that had experienced increases over the previous five years experience sharp declines. Two exceptions to this rule are Human Services and Elementary & Secondary Education. The State Employees Retirement System received the largest percentage cut (12%) and Economic Development & Infrastructure received the largest dollar amount decrease ($1.3 billion).

All Funds $ Millions				
FUNCTION	**FY2003**	**FY2004**	**Change**	**% Change**
Legislative Agencies	$ 91	$ 91	$ 0	2%
Judicial Agencies	$ 363	$ 369	$ 5	2%
Elected Officials	$ 1,552	$ 1,624	$ 72	5%
Elementary & Secondary Education	$ 8,239	$ 8,549	$ 310	4%
Higher Education	$ 3,117	$ 2,963	$ (154)	-5%
Human Services	$ 15,700	$ 16,966	$ 1,267	8%
Public Safety	$ 2,199	$ 2,258	$ 58	3%
Environment & Business Regulation	$ 2,302	$ 2,054	$ (248)	-11%
Economic Development & Infrastructure	$ 11,366	$ 10,088	$ (1,278)	-11%
Government Services	$ 7,799	$ 7,619	$ (180)	-2%
State Employees' Retirement System	$ 17	$ 15	$ (2)	-12%
GRAND TOTAL BEFORE INITIATIVES	**$ 52,746**	**$ 52,596**	**$ (150)**	**0%**
Governor's Initiatives			$ (196)	
GRAND TOTAL AFTER INITIATIVES	**$ 52,746**	**$ 52,401**	**$ (345)**	**-1%**

The Elementary & Secondary Education as well as the Human Services categories received decreases in appropriations for Operations, but these were overwhelmed by increases in Grants in Aid. The largest increases in the Elementary & Secondary Education appropriations result from increases in the General State Aid, Title I, and the Individuals with Disabilities Act line items.

FUNCTION	**FY2003**	**FY2004**	**Change**	**% Change**
Elementary & Secondary Education	$8,239	$8,549	$310	4%
IL State Board of Education				
Operations	$462	$218	-$244	-53%
Grants in Aid	$7,756	$8,331	$576	7%
Adjustment - Transferred Programs	$22			
Total	$8,239	$8,549	$309	4%

The largest increases in the Human services category, 88% of the total increase, are again in three line items within the Department of Public Aid appropriations: County Hospital Services, Hospital In-Patient Services, and Prescription Drugs. However, past under-funding and over-funding of these line items makes year-to-year comparisons of appropriations misleading. Greater detail, which is not publicly available, is the only way to see what the real increases are. The County Hospital Services line item refers to Cook County Hospital and the Cook County network of hospitals. Because of the ability to leverage Federal dollars, more than 50% of this line item is returned to the State by the Federal government. On Hospital In-Patient, Long-Term

Care and Prescription Drugs, the Federal government reimburses approximately 50% of the dollars.

FUNCTION	FY2003	FY2004	Change	% Change
Human Services	15,699.90	16,966.40	1266.50	8%
Department of Public Aid	8,687.81	9,853.28	1,165.46	13%
Department of Human Services	4,901.71	4,990.13	88.42	2%
Department Children & Family Services	1,376.52	1,376.52	0.00	0%
Department of Aging	322.91	330.25	7.34	2%
Department of Public Health	313.09	319.98	6.89	2%
Department of Veterans Affairs	78.92	77.53	-1.40	-2%
Guardianship & Advocacy Commission	8.72	8.60	-0.12	-1%
IL Violence Prevention Authority	5.46	5.28	-0.18	-3%
IL Council on Developmental Disabilities	4.12	4.20	0.07	2%
IL Deaf & Hard of Hearing Commission	0.69	0.64	-0.05	-7%
Total	15,699.96	16,966.39	1266.43	8%
Department of Public Aid	8,687.81	9,853.28	1,165.46	13%
Operations	395.39	377.90	-17.49	-4%
Grants in Aid	8,212.57	9,470.53	1,257.95	15%
Refunds	4.85	4.85	0.00	0%
Adjustment - Transferred Programs	75.00			
Total	8,687.81	9,853.28	1165.46	13%
Grants in Aid - Detail				
County Hospital Services	1,509.62	1,981.12	471.50	31%
Medical Assistance - Hospital In-Patient, etc.	1,911.85	2,255.07	343.22	18%
Medical Assistance - Long-Term Care, etc.	1,485.28	1,652.03	166.75	11%
Medial Assistance - Prescription Drugs	1,346.00	1,647.01	301.01	22%
Medical Assistance - Physicians	491.75	513.59	21.84	4%
All Other	1,943.31	1,804.45	-138.86	-7%
Total	8,687.81	9,853.28	1165.46	13%

C. LONG-TERM OBLIGATIONS

This section provides an overview of long-term obligations in the FY2004 budget. Specifically, it provides information about the State's pension funds and long-term debt burden.

PENSION FUNDS

Five state retirement systems provide benefits to public employees: the Teachers, University, State Employees, Judges and General Assembly pension funds. A total of 589,496 current and retired employees are enrolled in the retirement systems.

Members of the Illinois Retirement System

Pension Fund	Active Members	Retirees
Teachers	220,327	69,472
University	131,591	39,259
State Employees	81,869	44,557
Judge	944	838
General Assembly	286	353
Total	**435,017**	**154,479**

National Comparison

Illinois pension funds ranks last and next to last among all 50 states when measured by two key indicators: funded ratios and the value of unfunded liabilities. These indicators measure whether or not pension fund assets will be cover the benefits due to their members.

The first table shows that Illinois' pension fund assets cover only 54% of liabilities. The second table shows that Illinois has nearly $35 billion in unfunded pension liabilities, ranking it last in the nation.

Funded Ratio
Actuarial Value of Assets

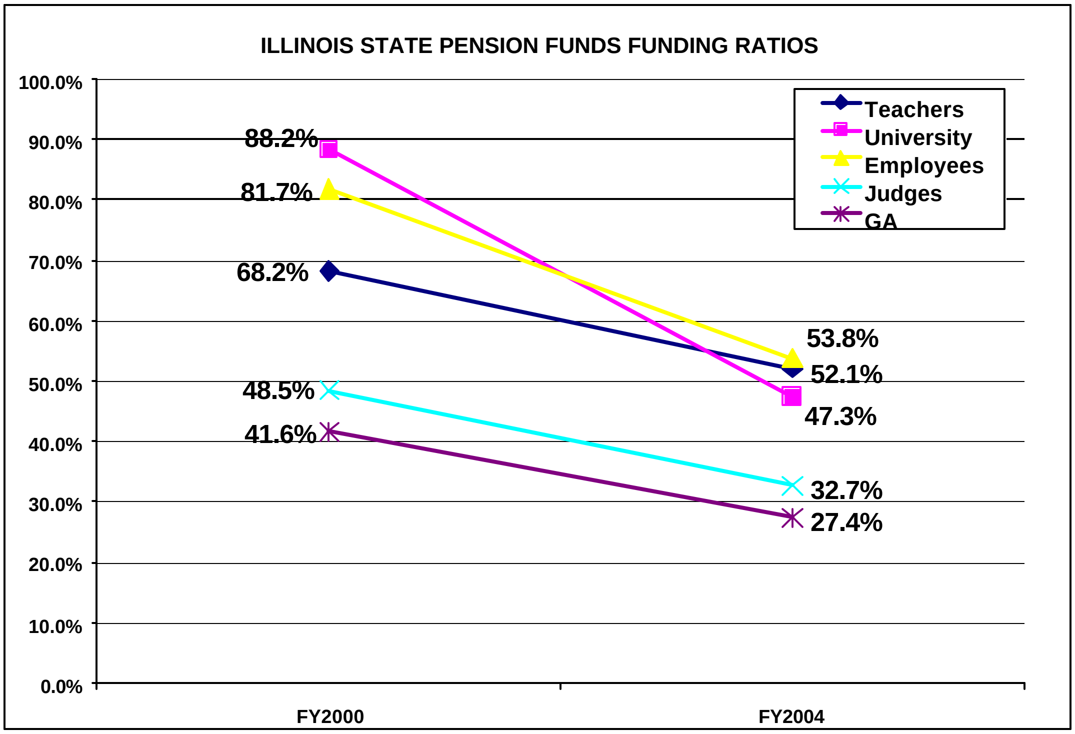
State	Ratio	Rank
Indiana	65%	**46th**
Louisiana	65%	**47th**
Oklahoma	56%	**48th**
ILLINOIS	**54%**	**49th**
West Virginia	45%	**50th**

Unfunded Pension Liabilities
($ thousands)

State	Unfunded Liabilities	Rank
Oklahoma	$ 9,662,000	46th
Oregon	$10,753,000	47th
Texas	$19,402,000	48th
Ohio	$21,980,000	49th
ILLINOIS	$34,946,000	**50th**

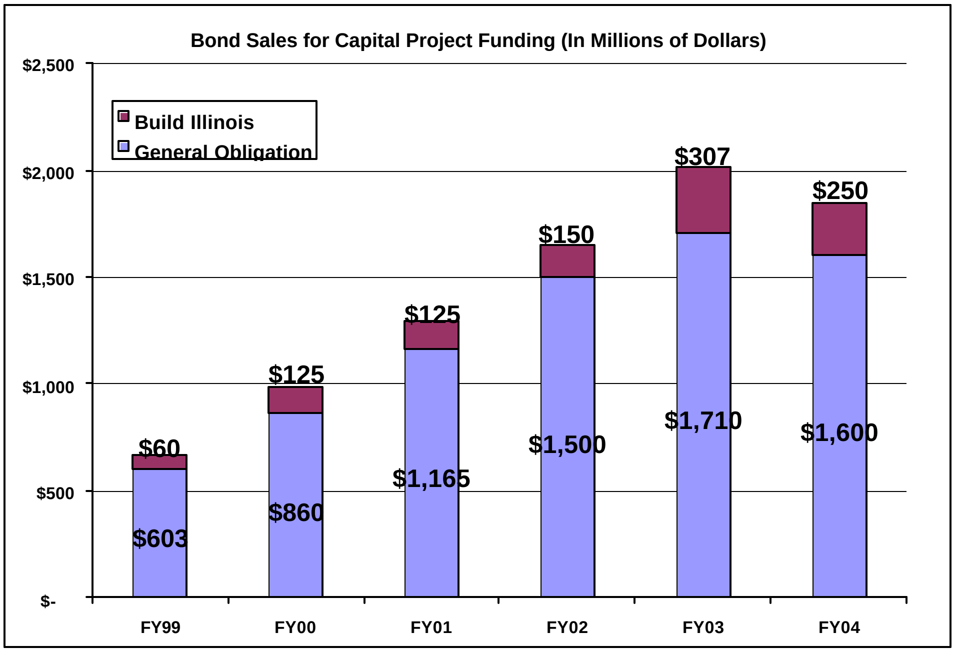
Funding Ratios

The chart below shows the funding ratios for the State of Illinois' pension funds in FY2000 and FY2004 (estimated). The funded ratio has dropped significantly for each fund as the amount of actuarial liabilities has correspondingly increased. For all funds, the funded ratio has dropped from 74.7% to 51.0%.



LONG-TERM DEBT

The State of Illinois' capital program is financed through the issuance of general obligation bonds as well as Build Illinois revenue bonds secured by state sales tax revenues. The exhibit below shows historical and projected bond sales. It excludes sales for refunding purposes and the pension obligation bonds approved in April. In FY2004, the general obligation bond sales include $1.4 billion in projected spending for prior year appropriations. As the exhibit shows, bond sales will decrease in FY2004, from a total of $2.01 billion to $1.85 billion.



Currently, the state has issued $15.6 billion of general obligation bonds. The total amount of G.O. bonds outstanding as of February 28, 2003 was $8.5 billion. The amount of G.O. debt retired as of February 28, 2003 was $1.4 billion.

General Obligation Debt Outstanding (In Millions)

FY99	FY00	FY01	FY02	FY03 Est.	FY04 Proj*
$ 5,456.3	$5,885.8	$6,600.0	$7,629.9	$8,810.6	$19,882.4

* Includes $10 billion pension obligation bond issue

Bond Rating Information

As of April 9, 2003, the general obligation bond ratings of the State were:

Moody's	Aa2
Standard & Poor's	AA
Fitch Ratings	AA+

Debt Burden Comparison[1]

Moody's Investors Services considers the State's debt burden as moderate based on indicators such as these:

Debt Burden Measure	Amount	National Ranking
Direct Debt Per Capita	$ 908	12th
Debt as a % of Personal Income	2.8%	9th

[1] *State of Illinois FY2004 Budget in Brief*, p. 77.