Why Ignore Over Half of the Illinois State Budget Picture?

Consolidation of General and Special Fund Reporting

THE FISCAL FUTURES PROJECT
igpa.uillinois.edu/fiscalfutures

July 2011

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We are grateful to the
John D. and Catherine T. MacArthur Foundation
for financial support of the *Fiscal Futures Project*

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Executive Summary

The state of Illinois has hundreds of separate funds for budget accounting purposes. But most discussion of the state budget concentrates only on the four General Funds, which represent less than half of the total state budget.

Focusing only on General Funds:

- Allows important budgetary choices, such as changes in transportation spending, to be made with little scrutiny.
- Makes it harder to monitor actual changes in spending from one year to the next.
- Makes it more difficult to foresee future budgetary problems.

IGPA's *Fiscal Futures Project* created a **consolidated funds budget that tracks 380 funds** and uses historically consistent categories of spending and receipts. Adding more funds to budget reporting presents a more accurate picture of the state's fiscal situation.

This view of the budget:

- **Expands coverage.** Brings important categories of state spending—transportation, debt service, transfers to local government, and federal grants—into budget analysis and discussion of priorities.
- **Provides consistent definition over time.** Assigning an item to General Funds in one year and to a special fund in the next does not change total spending. Yet because the item is no longer assigned to General Funds, it appears that spending went down. Our consolidated budget is not distorted because it tracks total spending, regardless of fund assignment.
- **Inter-fund transfers net out.** Transfers between General and special funds obscure the magnitude of actual changes in the state's budget situation. This can be manipulated when there is a political advantage to making the budget look bigger or smaller. Our consolidated budget is not distorted by transfers because revenues and expenditures are treated comprehensively.

The report gives real examples of budget distortions caused by limiting reporting to General Funds.

Yes, the special (non-general) funds come with strings attached:

- Uses of federal grant money restricted;
- Many revenue sources earmarked for specific purposes by past General Assemblies.

But:

- Federally funded programs overlap with state responsibilities;
- Revenue earmarking choices can be changed by current or future General Assemblies.

Which special funds are important? The report shows that:

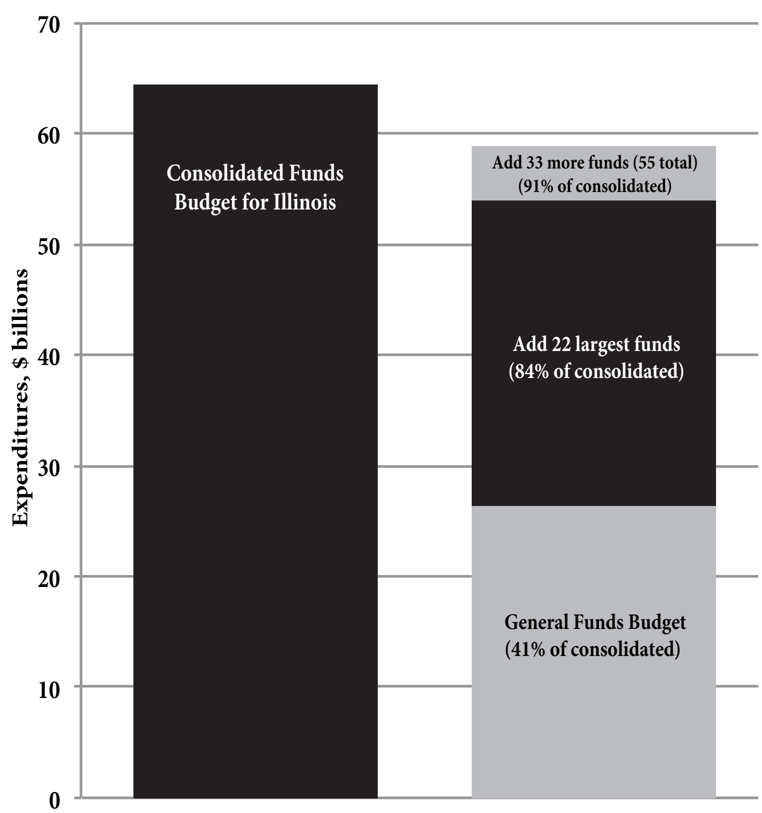
- Bringing the **22 largest funds** into reporting **covers over 80%** of total consolidated spending.
- Bringing **55 funds** into reporting **covers over 90%** of total consolidated spending.

The report provides tables demonstrating how the General Funds budget differs from the total budget, as well as lists of key funds.

Another alternative, perhaps easier to implement, would be expand the number of General Funds to include 10 or 20 of the largest non-transportation funds that are currently designated as special funds.

Note well that combined or consolidated reporting does *not* mean that any *accountability and control* restrictions on the use of particular funds have to be changed. It just means that those funds should be brought fully into view.

Caution: With any form of budget consolidation, annual monitoring is necessary to maintain consistency and limit opportunities for manipulation.



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The state of Illinois has hundreds of separate funds for budget accounting purposes. But most discussion of the state budget concentrates only on the four General Funds, which represent less than half of the total state budget.

The *Fiscal Futures Project* was initiated several years ago in an effort to better understand the state of Illinois' budget and the longer-term forces acting on it. Our main concern was to develop and present a broad picture of Illinois' past and current fiscal choices and to provide information that would help plan for future fiscal challenges. We soon became immersed in the arcane and technical world of government accounting as we tried to sort through Illinois' fiscal choices.

Like most public entities, Illinois' budget accounting relies heavily on "funds" dedicated to relatively narrow purposes—like fund 0870 which receives and dispenses federal funds for the Low Income Home Energy Block Grant. Designated funds make it easier to track and monitor the receipt and use of public money and to assure the financial integrity of Illinois government. If properly used, compiling information in this way can bolster public trust and help policy makers better see and make decisions about the use of scarce resources.

However, we found that the complexity and multiplicity of funds can also be used to mystify, obscure and even distort true budgetary actions. This report identifies some of the problems and suggests alternatives to current reporting procedures that we believe have the potential to increase transparency and limit the opportunities to manipulate public opinion through misleading reporting practices.

Consolidated versus General Funds

Early on we discovered that most of the policy discussion and media attention about the state budget was focused on the state's four General Funds—General Revenue, Education Assistance, Common School, and the General Revenue-Common School (GR-CS) Special Account. These four funds are important, but they accounted for only two-fifths of the total Illinois budget in FY 2010.[1] However, despite the fact that the General Funds represent only a fraction of the budget, presentations aimed at legislators and the general public are primarily—and sometimes exclusively—focused on the General Funds. For example, the *Comptroller's Quarterly*, the *Comptroller's Fiscal Focus* reports, and the reports produced by the Commission on Governmental Forecasting and Accountability (COGFA), including *Monthly Briefings*, all focus on the General Funds budget.[2]

The rationale for excluding non-general funds in budget presentations is that the revenues in these funds often derive from federal or other earmarked sources, which means that the legislature's use of these monies is constrained. For example, in introducing his all-funds *State of Illinois Budget for Fiscal Year 2011*, Governor Quinn stated:

> *Although the upcoming budget for the state of Illinois is more than 55 billion dollars, about half of that money comes from*

[1] See Table 1 later in this paper.

[2] Not all state budget reports are limited to the General Funds. In particular, the Comptroller's *Comprehensive Annual Financial Report* (CAFR), the Comptroller's *Detailed Annual Report* (DAR), the Governor's annual proposed *Illinois State Budget*, the Governor's *Quarterly Budget Report*, and the bill or bills with which the General Assembly implement the budget do present all funds (or aggregations of all funds by function). But these documents are so detailed as to be incomprehensible to all but a few. And, sometimes all-funds budgets double-count transactions that flow through multiple funds. Moreover, the CAFR and Quarterly Budget Report present expenditures in such a way that they are of little use to the reader interested in particular categories of spending.

federal dollars and special funds. That means we don't have the authority to decide how most of those dollars are spent. Our spending power is pretty much limited to the dollars in our General Revenue Fund—that's about 27 billion dollars in the coming year.[3]

This argument is overstated for several reasons. First, while the Illinois General Assembly in past years has earmarked certain revenue sources and linked them to particular expenditures, current and future legislatures could reconsider those choices if they choose. For example, state lottery receipts and motor fuel taxes are designated for specific uses and therefore directed to special funds. Legislators *do* have the right to reconsider past decisions, but are unlikely to do so if special funds are not explicitly considered in the annual budgetary process.

Second, while it is true that the federal government limits the Governor's or legislature's discretion over the use of federal dollars, these funds do have impacts on the rest of the budget. State programs are often substitutes for, or companions to, federally funded programs. If new federal dollars become available and are placed in special funds designated for specific programs, the General Funds' budget for those programs may be reduced or directed elsewhere. But those federal dollars may not be available year after year. The Illinois General Assembly should be very attentive to federal funds, because in future years, federal sources may be reduced or eliminated, and the state may be liable to maintain some of the programs. Federal funds and earmarked taxes are very important sources of the state's cash receipts and should be an explicit part of discussions about the state budget.

It is very difficult to understand the state's budget situation from official reports, but limiting the analysis to General Funds makes the task much harder. The *Fiscal Futures Project* team implemented a detailed process to construct a more inclusive concept that we call Consolidated Funds. This budget concept consistently represents all spending and revenue categories in the Illinois budget over almost two decades. The consolidated measure presents a better picture of the state's fiscal situation for a number of reasons:[4]

- **Breadth of coverage.** Consolidation explicitly includes key categories of state spending—like transportation, debt service, transfers to local governments, and many programs supported by federal grants—in the analysis and discussion of budget priorities. We consistently categorize spending by purpose (e.g., low income health care) rather than by agency so that administrative reorganizations do not distort budgetary reporting.

- **Consistent definition over time.** It is not unusual for an item to be assigned to General Funds in one year and a special fund in the next (or vice versa). Looking only at General Funds, it might appear that spending went down, while a consolidated budget tracks the actual change in total spending. Reassignment is not confused with real change.

- **Inter-fund transfers.** Some reported General Fund receipts are actually *transfers* in from non-general funds and some reported General Fund expenditures are actually *transfers* out to non-general funds. Such transfers can obscure the magnitude of real changes in the state's budget situation. With a broad budget frame, most inter-fund transfers net out.

Table 1 shows the differences between the Consolidated Funds and General Funds measures. In FY 2010 total spending from the four General Funds was $26.3 billion, but this represented considerably less than half of the $64.7 billion in direct spending from the 380 Consolidated Funds. The $26.3 billion figure shown in Table 1 represents just direct expenditures of the General Funds. Often the General Funds total is presented as direct expenditures plus transfers out, which was $30.5 billion in FY 2010. If the General Funds are compared to or consolidated with other state funds, reporting transfers to those funds as expenditures would lead to double counting. Similarly, transfers into the General Funds from other state funds are not net new receipts of the state government sector and should not be double counted. In the *Fiscal Futures Project* and in this paper, inter-fund transfers are not counted as expenditures or receipts. Rather, receipts are assigned to the fund making the initial collection and expenditures are assigned to the fund making the final payment.

The first column in Table 1 shows the amount of FY 2010 General Fund spending in the fifteen spending categories and sixteen revenue categories designated by the *Fiscal Futures Project*. The second column shows the General Funds share of the Consolidated Funds amount in each category. The third column shows the amounts for the broader Consolidated Funds budget.

The 40.7 percent share of General Funds in the total Consolidated Funds spending budget[5] and the 0-10 percent shares for seven of the individual spending categories show that non-general funds are very important in the overall

[3] Governor Pat Quinn, FY 2011 State of Illinois Budget Address, March 10, 2010, Transcript Final Draft. http://www2.illinois.gov/budget/Documents/FY%202011%20Transcript.pdf, accessed 4-4-11

[4] For more on the justification, categorization, and criteria for inclusion of funds in our consolidated funds budget see "Fiscal Futures Project Documentation," downloadable from our website: http://igpa.uillinois.edu/content/fiscal-futures-project.

[5] The larger amount of direct expenditures plus transfers out (see prior note) represents 46.7 percent of the consolidated total.

Table 1: General Funds versus Consolidated Funds Budget for Illinois in FY 2010[a]

Spending Category[b]	General Funds ($ million)	General Funds Pct. Share of Consolidated	Consolidated Funds ($ million)	Number of Non-General Funds in Consolidation
Medicaid	6,803.8	47.1	14,438.7	29
Elementary & Secondary Education	7,272.4	73.9	9,847.2	15
Human Services (expanded)	6,048.2	64.9	9,313.9	45
Transfer of Revenue to Local Govts.	0.0	0.0	5,121.7	13
Transportation (including Tollway)	74.1	1.5	5,008.8	16
Debt Service[c]	0.0	0.0	4,767.0	4
Pensions	0.0	0.0	3,451.6	3
Higher Education	2,198.7	86.8	2,532.3	29
State Employee Health Care	0.0	0.0	1,679.2	1
Management, Legislative & Judicial	879.7	49.8	1,765.7	100
Corrections	1,156.3	94.2	1,227.7	1
Public Safety & Health	435.0	42.3	1,028.3	105
Environment, Nat. Resource & Agric.	83.9	9.8	857.7	98
Economic Development	49.3	3.8	1,299.4	51
Other Expenditures	1,316.0	55.9	2,354.2[d]	206[d]
Total Expenditures	26,317.5[e]	40.7[e]	64,693.3	380
Receipt Category[b]				
Federal Funds	5,840.3	31.9	18,322.3	195
Personal Income Tax[f]	8,510.4	100.0	8,510.4	0
General Sales Tax	6,308.0	74.2	8,497.2	4
Bond Issue Proceeds	0.0	0.0	9,005.5	15
Business Income Tax[f]	1,360.4	62.0	2,195.8	2
Motor Fuel/Vehicle/Operator	121.5	4.3	2,810.5	49
Short-Term Borrowing	1,250.0	83.4	1,499.6	1
Public Utility Tax	984.0	62.5	1,573.1	9
Healthcare Provider Taxes/Fees	0.0	0.0	1,574.9	4
Gambling	3.6	0.2	1,523.7	18
Excise Taxes (other)	866.0	69.1	1,253.2	27
Licenses, Fees & Registrations	11.9	2.4	502.4	214
Investment Income	25.9	56.0	46.2	210
Fines, Penalties & Violations	11.9	11.4	105.0	121
Corporate Franchise Taxes	208.1	97.7	213.0	2
Other Cash Receipts	1,146.9	24.9	4,603.6[d]	100[d]
Total Receipts	26,440.8[e]	42.5[e]	62,236.6	380

[a] Preliminary, final Detailed Annual Report for FY10 not yet released.
[b] See Documentation at http://igpa.uillinois.edu/fiscalfutures/research for category definitions.
[c] Includes principal and interest payments for short-term borrowing. Excludes escrow payments.
[d] Estimate.
[e] Excludes transfers from or to non-general funds. Comptroller's Quarterly, July 2010, p. 3 reports total expenditures plus transfers out of $30,479 million and total receipts plus transfers in of $30,329 million.
[f] Net of transfers to Refund Fund.

budget. The fourth column in Table 1 shows the number of non-general funds that contribute to each category. Note the very large number of non-general funds involved in most consolidated spending categories.

The results for the receipts side of the budget, shown in the bottom half of Table 1, are similar. Total General Fund receipts for FY10 are $26.4 billion or 42.5 percent of the $62.2 billion of Consolidated Fund receipts. Five of the sixteen receipts categories have a General Funds share of less than 5 percent. Hundreds of non-general funds contribute to several of the categories.

As illustrated in Table 1, non-general funds are large in number and represent well over half of the total Illinois budget. Non-general funds typically receive earmarked revenue streams and federal dollars, which means that these receipts represent a very significant share of the total budget. For example, federal funds account for half of the state's total Medicaid expenditures, 30-40 percent of transportation expenditures, and about 20 percent of the budgets for K-12 Education and Human Services. But specially-designated funds are not reported as part of the General Funds. When the special funds' expenditures are not reported with the General Funds, the true costs of state programs are not clearly presented. Federal dollars might be available one year but not the next, which means that the state must either eliminate the programs or cover the expenditures with its own-source funds. When this happens, it may appear that shifting expenditures from special funds to General Funds (or vice versa) is "increasing" (or "cutting") a program from one year to the next despite the fact that there has been little change in *total* expenditures. Alternatively, General Funds spending could be constant despite large changes in program expenditures.

We are arguing for combined *reporting* of special and General Funds, *not their merger*. The key points of this paper are that (1) special funds are a crucial component of the state budget that merit more visible reporting and (2) special funds and General Funds affect each other in important ways—substitution, inter-fund transfers, year-to-year changes in fund assignment—so that looking at just the General Funds gives a misleading picture of the state's true fiscal situation. Rules for *accountability and control* that restrict the use of certain special revenues can still be maintained even if reporting procedures are changed so that the use of both special and General Funds are documented in a comprehensive, coherent and consistent fashion.

Examples of how the choice of the budget frame can confuse the fiscal picture

In this section we present several recent examples of instances in which focus on the General Funds budget has obscured Illinois' true budgetary choices.

Example 1: Fund sweeps: special fund balance transfers as General Fund receipts

Increasingly in recent years, the state of Illinois has transferred balances from special funds into the General Funds. This is called "fund sweeps." For example, FY 2010 fund sweeps totaled $287 million,[6] and for just the first half of FY 2011 inter-fund borrowing totaled $338 million.[7] Including fund sweeps in the General Funds budget ignores the fact that fund sweeps are not a recurring source of revenue, and in many cases the special funds that were swept have to be reimbursed.

Example 2: Did Illinois spending really go down by $3.5 billion in 2010?

Recently, there have been a number of instances of reported budget cuts or increases that were really shifts of expenditures into or out of the General Funds. For example, to make its scheduled FY 2010 payments into the pension system the state issued about $3.5 billion in bonds, and deposited the proceeds into a special fund, which made the payments. Since in earlier years the state's pension contributions came from the General Funds, there was a dramatic reduction in the General Funds budget between FY 2009 and 2010 without any real change in spending. When the initial Illinois budget for FY 2011 then moved the pension contribution back to the General Funds, the National Conference of State Legislatures (NCSL) compared the budgets of all 50 states and—misleadingly—observed:[8]

> *Thirty-four states reported year-over-year drops in FY 2010 spending. Eight states reported double-digit declines with the biggest drops in Louisiana (-16.8 percent),* ***Illinois (-15.5 percent)*** *and Alabama (-14.9 percent).*
>
> *Thirty states plan to spend more in FY 2011 than last year. Four of these boosted appropriations by more than 10 percent, with the largest increases in* ***Illinois (15.1 percent)*** *and Texas (14.8 percent).*

But this reassignment caused barely a ripple in Illinois' broader Consolidated Funds budget.

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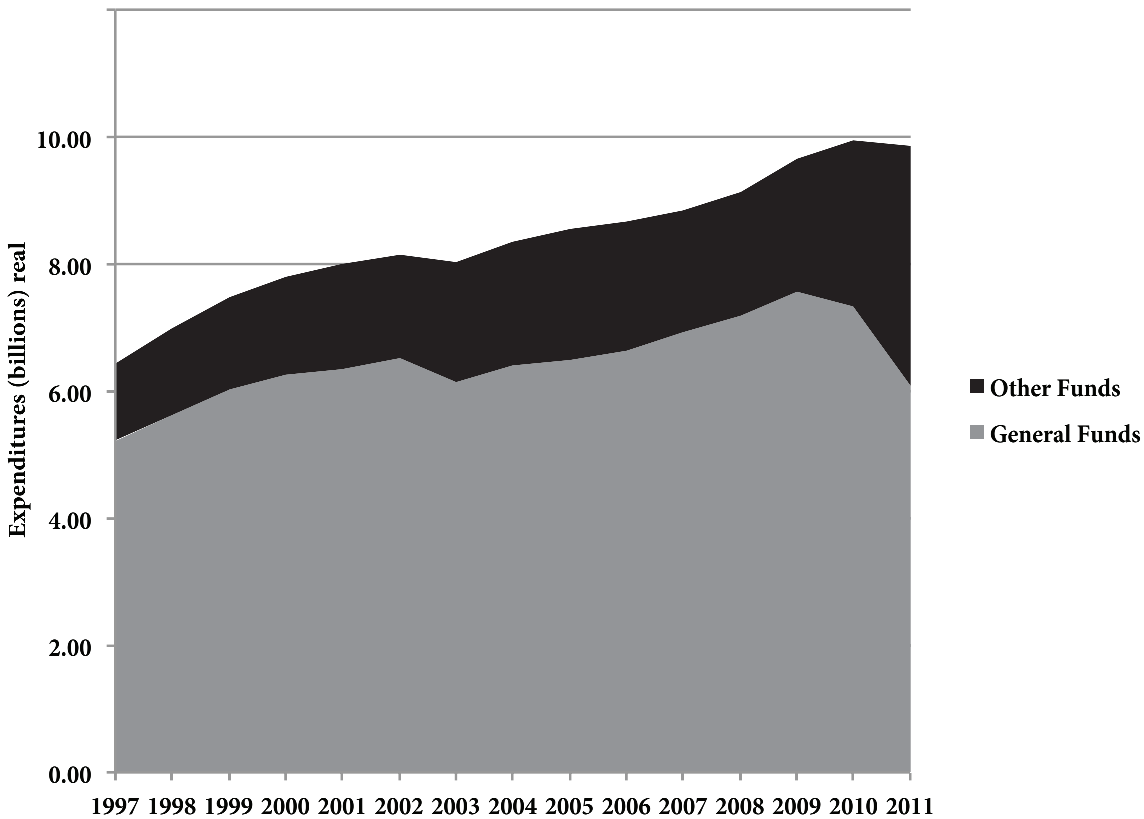
[6] COGFA, *Monthly Briefing*, June 2010, at http://www.ilga.gov/commission/cgfa2006/Resource.aspx?id=2. "Sweeps" are the net amount after repayment to special funds; inter-fund borrowing has to be repaid within 18 months.

[7] CPGFA, *Monthly Briefing*, November 2010, at http://www.ilga.gov/commission/cgfa2006/Resource.aspx?id=2.

[8] NCSL, "State Budget Update," July 2010, pages 9 and 14. Note these calculations are based on the budget as of the beginning of FY 2011. Half way through the fiscal year, in January 2011, the General Assembly authorized borrowing for the pension contribution.

Figure 1: State Board of Education Expenditures, General Funds & Other Funds, 1997-2011 (billions of 2011 dollars)



Sources: IGPA Fiscal Futures Model, using Illinois Comptroller, *Detailed Annual Reports*, for FY 1998-2009; Illinois Comptroller's website for FY 2010; and *Governor's Operating Budget 2012*, for FY 2011 expenditures.

Example 3: What was the change in PreK-12 Education spending?

In his budget address on March 10, 2010, Governor Quinn announced that the education budget for FY 2011 would be cut by $1.3 billion, "a 17 percent cut in state funding to grammar schools and high schools across our state."[9] The governor explained that this was necessary because:

> *…the federal stimulus program provided one billion dollars in emergency funding for education in Illinois. Those federal dollars made it possible to protect our education system from severe cuts in the current budget. But those federal stimulus funds for education will end on July 1, 2010—this year—and right now, we do not have the revenues to replace those federal dollars.*

To offset the loss of federal stimulus funds and reverse the cuts, Governor Quinn proposed a 1-percentage-point tax increase, which he called "a one percent income tax surcharge for education."

The threatened 17 percent cut to the education budget was widely reported in the media,[10] but that change was from the perspective of the General Funds only (from $7.3 billion in FY 2010 to a proposed $6.1 billion in 2011).[11] From the broader—and more meaningful—perspective of the Consolidated Funds budget, there was virtually no change in the proposed FY11 education budget compared to the FY10 amount.[12] As Figure 1 shows, real total spending on state aid to public education increased slightly from FY09 to FY11, even though there was a dramatic decline in General Funds expenditures in those two years.

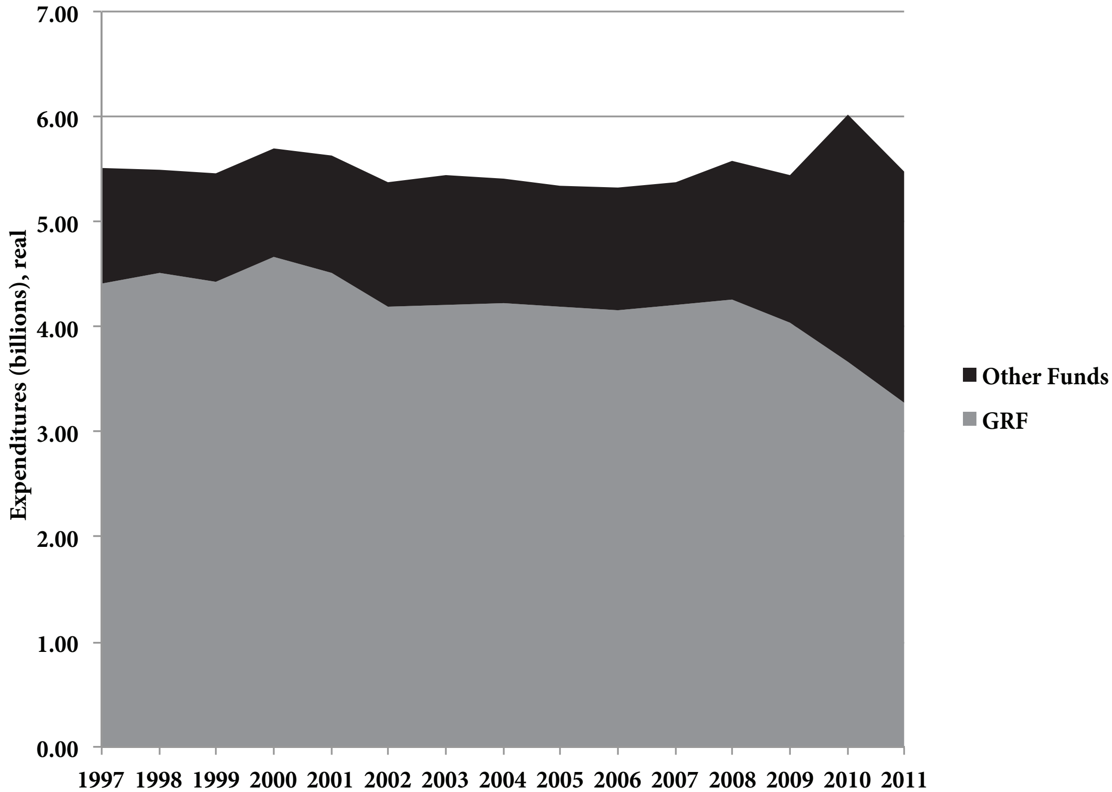
[9] Transcript: Governor Quinn's FY 2011 State of Illinois Budget Address March 10, 2010. http://www2.illinois.gov/budget/Documents/FY%20 2011%20Transcript.pdf last accessed April 4, 2011.

[10] For example, see: http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=3&RecNum=8291, http://www.wqad.com/news/wqad-quinn-budget-proposal-challenges-031010,0,829169.story?track=rss, http://www.boston.com/news/education/k_12/articles/2010/02/24/ill_gov_quinn_considers_2b_in_budget_cuts/, and http://www.ounceofprevention.org/news/03102010-pressrelease.php. All were last accessed April 4, 2011.

[11] The numbers are from the Governor's *2011 Operating Budget*.

[12] FY 2010 numbers from Office of the Comptroller's website, http://www.ioc.state.il.us/ (accessed April 4, 2011).

Figure 2: Department of Human Services Expenditures, General Revenue Fund & Other Funds, FY 1998-2012 (in billions of 2011 dollars)



Sources: IGPA Fiscal Futures Model, using Illinois Comptroller, *Detailed Annual Reports*, for FY 1998-2009; Illinois Comptroller's website, expenditures for FY 2010; *Governor's Operating Budget 2012,* for FY 2011 expenditures and FY 2012 recommended appropriations.

Note: Amounts shown are for warrants issued and do not include unpaid bills.

Example 4: Department of Human Services

A number of analysts have decried the decline in the General Funds 2012 budget for Human Services and the cuts to specific programs,[13] while Senate Republicans have argued that the 2012 General Funds Human Services budget should be further reduced.[14] Numerous observers, including the national media and the Illinois Office of the Comptroller, have noted that in recent years, as the state became increasingly unable to pay its bills, social service providers have struggled to remain solvent. Since fiscal year 2009, the General Funds expenditures for the Department of Human Services have dropped dramatically, as shown in Figure 2. However, except for the increase in federal funds in FY 2011, after adjusting for inflation, consolidated DHS expenditures have remained fairly constant since 1998.

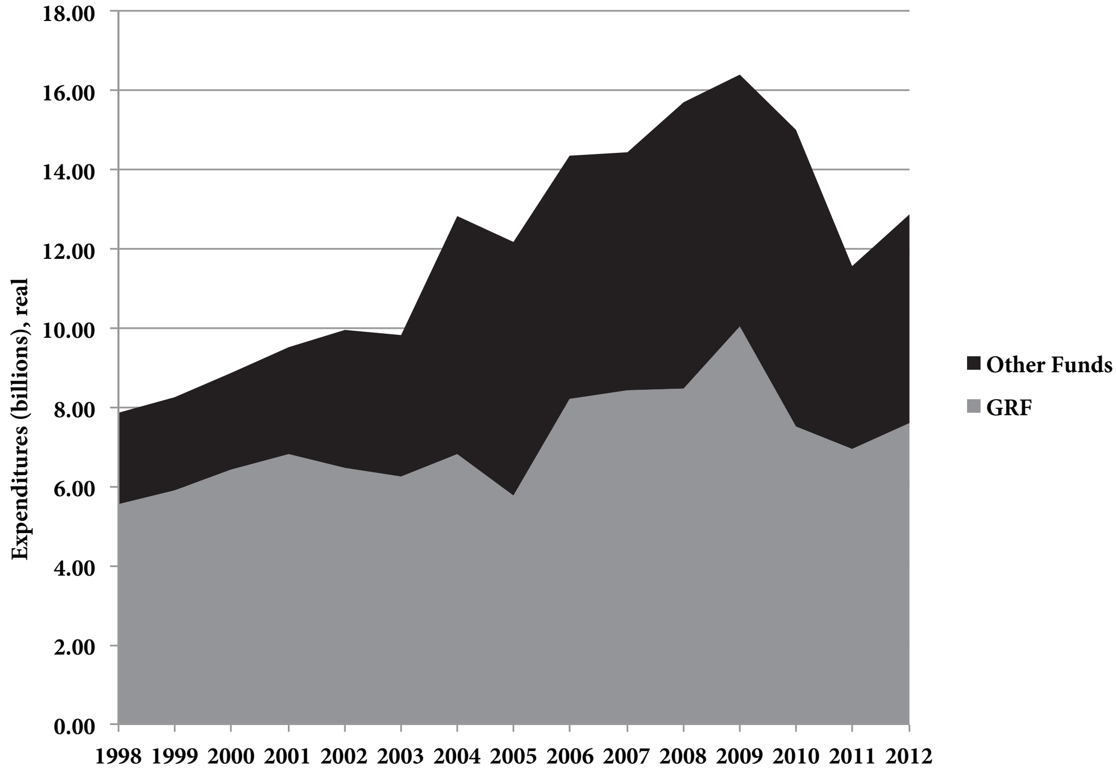
Example 5. Department of Healthcare and Family Services (DHFS)

Total expenditures from the Department of Healthcare and Family Services have increased dramatically because of cost increases in Medicaid and medical assistance programs, most of which are administered by DHFS. However, as seen in Figure 3 the General Funds' share of this spending has dropped. In 1998, the GRF share was 70 percent and in 2010 the GF share had dropped to 44 percent. Increasingly, Illinois has deposited federal Medicaid dollars into specially-designated funds, rather than the General Revenue Fund.

[13] Voices for Illinois Children, "An Essential Step Toward Resolving the State Fiscal Crisis," February 2011. http://voices4kids.org/library/policy%20bulletin%20Feb%202011.pdf (accessed 4-6-11); Center for Tax and Budget Accountability, Analysis of Proposed Illinois FY 2012 Budget, March 2011. http://www.ctbaonline.org/New_Folder/Budget,%20Tax%20and%20Revenue/FINAL%20CTBA%20FY2012%20Budget%20Analysis%203.22.2011.pdf (accessed 4-6-11).

[14] Illinois Senate Republican Caucus, "Facing Fiscal Reality: A plan for reality-based budgeting," March 2011. (accessed 4-6-11). http://www.senatordavesyverson.com/wp/wp-content/uploads/2011/03/Fiscal_Reality_web_final.pdf

Figure 3: Department of Healthcare and Family Services Expenditures, General Revenue Fund & Other Funds: 1998-2012 (in billions of 2011 dollars)



Sources: IGPA Fiscal Futures Model, using Illinois Comptroller, *Detailed Annual Reports*, for FY 1998-2009; Illinois Comptroller's website, expenditures for FY 2010; *Governor's Operating Budget 2012*, for FY 2011 expenditures and FY 2012 recommended appropriations

Notes: In 2006, state employee healthcare was moved to DHFS. For historical consistency the numbers for 2006-2012 were adjusted to remove this program from other and total spending. Prior to 2006 the Department of Healthcare and Family Services was called the Department of Public Aid.

What to do? Policy options for reporting more than just General Funds

The above examples illustrate why it is inaccurate and misleading to portray year-to-year expenditure shifts into or out of the General Funds as substantive budgetary changes. Illinois' current focus on the General Funds alone can obscure the true budget picture in important ways. A more consolidated presentation of the Illinois state budget is desirable. That said, full consolidation of all 650 state funds is not appropriate, because some special funds hold money that, in a very real sense, does not belong to the state. Examples include funds that hold payroll deductions from employees, or receipts from locally levied sales taxes. Almost everyone would agree that it is not appropriate to consider the dollars in these funds part of the state's total resources and expenditures.[15]

The full consolidation of all 380 funds currently in the IGPA Fiscal Futures Model presents some practical difficulties. Reviewing hundreds of funds is a time-consuming task, as the consolidation process requires careful review of the criteria used, the application of those criteria to each fund, and adjustments to account for fund "births" and "deaths" from year to year. Real-time analysis means generating estimates more quickly, with less than complete information. So, in the following sections of this report we examine the intermediate policy of adding just 20 to 55 of the state's 650-plus non-general funds to the General Funds budget. This would be a vast improvement over the General Funds-only presentation of the budget and would achieve most of the benefits of full consolidation. The resulting improvement in budget clarity can be of benefit to both policymakers and the public in understanding, and addressing, the state's serious fiscal problems.

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[15] See Fiscal Futures Project, Documentation, Section 2: "Criteria for Including Funds in the Consolidation," available at: http://igpa.uillinois.edu/fiscalfuturesproject/.

General Funds plus 20 to 50 of the Larger Funds

Two practical alternatives to General Funds-only budget presentation short of full consolidation are shown in Table 2. The first three columns combine the reporting of the four General Funds and 22 of the largest non-general funds and for each budget category show: the dollar amount, that amount as a share of the *Fiscal Futures Project* consolidated funds figure, and the number of non-general funds included. The last three columns do the same for the combined reporting of the General Funds and 55 non-general funds.

The first alternative shown in the first three columns of Table 2, "General Funds Plus 22 Other," is the case in which the largest appropriated funds—those with greater than $600 million of expenditures or receipts—are added to the General Funds for reporting purposes.[16] Two large non-appropriated funds—the Local Government Tax Fund and the State Toll Highway Revenue Fund—also are added. The Fiscal Futures expenditure and receipts categories were then computed using just the General Funds plus the 22 funds, to determine how this would compare to full consolidation. Overall, this method covers about 84 percent of the total expenditures of Fiscal Futures (and 81 percent of receipts) consolidated. However, for three spending categories and one receipts category, the proportion captured is still less than half.

To go farther toward the goal of full consolidation, 33 additional non-general funds were added for a total of 55, and the components of each category were computed again. This is presented as the second alternative, "General Funds Plus 55 Other," shown in the last three columns of Table 2. In FY 2010, about $4 billion would be added to the previous calculation, which means that "GF plus 55" accounts for about 90 percent of total Fiscal Futures consolidated expenditures. While most expenditure categories were affected by going to 55 significant funds some were unaffected because the balance of their expenditures occurred in small funds not included in our top 55 funds.

Table 3 lists the particular funds in the GF-plus-22 and GF-plus-55 calculations. The 4 General Funds are shown first, then the 22 largest non-general funds, then the 33 additional funds that make up the GF-plus-55. As noted, the plus-22 non-general funds were selected based on size with a cutoff of spending or receipts of more than $600 million. The additional 33 funds that make up the GF-plus-55 were chosen by sorting all of the funds in the Fiscal Futures consolidation and selecting the largest funds for each fiscal year from 1997 to 2010. This led to a final list of funds with over $100 million in either receipts or spending in recent years.

[16] The exception to this rule is the Income Tax Refund Fund, which was not included because we measure income tax receipts net of transfers to the Refund Fund.

The two possible scenarios outlined here are potential policy options, but whether to include any particular fund is a judgment call. Before adopting either of these reporting schemes, there are some additional issues that should be considered. These issues are discussed in the following sections.

The Special Case of Transportation

There are several reasons to ask whether the transportation budget should be excluded from expanded budget reporting. Most transportation receipts come from either earmarked taxes and fees—such as the motor fuels tax, license fees, and tolls—or from federal funds, which account for about 30 to 40 percent of the transportation budget. However, *all* special funds have federal or dedicated revenues, and the other special funds *are* considered to be part of the state's total budget. The state's other large expenditure categories—education, Medicaid, and human services—all have a significant federal funds component (20 to 50 percent), as do smaller categories such as public health, economic development, and natural resources. Moreover, excluding transportation would impact other expenditure categories. For example, motor fuel tax revenues are transferred to counties, townships, and municipalities to pay for local road construction. This is an important component of all revenue transfers to local governments, a state expenditure category that has received recent scrutiny as budget cuts are considered. It is inconsistent to re-evaluate the transfer of the motor fuel tax revenues to local governments without presenting the rest of the transportation budget.

A reason for keeping transportation separate is the particular nature of appropriations for road projects. It is routine to appropriate roughly 2 ½ times more for roads than is actually spent in a fiscal year. Presumably this over-authorization preserves flexibility as to which of many potential projects eligible for a federal match are actually undertaken in the coming year. With this routine over-appropriation, it could be confusing to combine transportation with other spending categories when proposing budgets. As shown in Figure 4 below, capital expenditures comprise a majority of the transportation budget and these expenditures are more cyclical than other budget items. But in an historical analysis, this category could and should be included.

Trade-Offs in Choosing How Many and Which Funds to Include

For a point-in-time analysis of a single fiscal year, whether to use 4 funds, 22 funds, or 55 funds is a judgment call. And whether to exclude or include any particular fund or group of funds—like the transportation funds—is a separate judgment. It is not difficult to calculate expenditures using 20

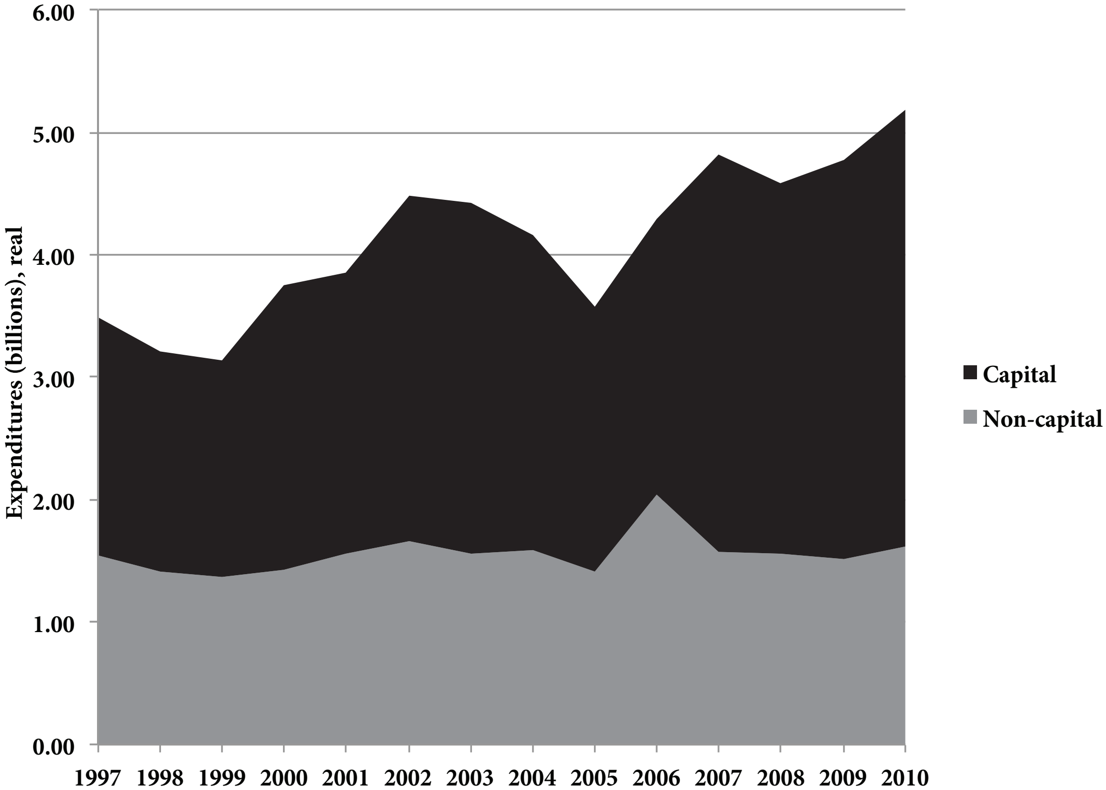
Table 2: FY 2010 Illinois Spending and Receipts for General Fund Plus 22 or 55 Other Funds versus 380-Fund Fiscal Futures Consolidation[a]

	General Funds Plus 22 Other			General Funds Plus 55 Other		
Spending Category[b]	**$ million**	**Share of Cons. FF (%)**	**# Non-General Funds**	**$ million**	**Share of Cons. FF (%)**	**# Non-General Funds**
Medicaid	12,917.7	89.5	5	13,437.3	93.1	9
Elementary & Secondary Education	9,821.1	99.7	2	9,824.4	100.0	5
Human Services (expanded)	6,124.7	65.8	2	7,118.7	76.4	8
Transfer of Revenue to Local Govts.	4,387.6	85.7	4	5,121.7	100.0	7
Transportation (including Tollway)	4,533.8	90.5	7	5,000.6	100.0	13
Debt Service[c]	4,478.2	93.9	1	4,766.9	100.0	4
Pensions	3,451.6	100.0	1	3,451.6	100.0	1
Higher Education	2,200.0	86.9	1	2,438.2	96.4	4
State Employee Health Care	1,373.1	100.0	2	1,373.1	100.0	2
Management, Legislative & Judicial	872.4	49.5	0	1,453.1	82.4	5
Corrections	1,156.3	94.2	0	1,156.3	94.2	0
Public Safety & Health	452.4	44.0	2	609.2	59.2	3
Environment, Nat. Resource & Agric.	84.2	9.8	1	414.5	48.3	2
Economic Development	247.1	19.0	1	713.6	54.9	3
Other Expenditures	1,838.5[d]	64.4	7	1,841.1[d]	78.2	16
Total Expenditures	53,951.1[e]	83.9[e]	22	58,866.3[e]	91.2[e]	56

Receipt Category[b]	**$ million**	**Share of Cons. FF (%)**	**# Non-General Funds**	**$ million**	**Share of Cons. FF (%)**	**# Non-General Funds**
Federal Funds	13,905.6	75.9	10	16,759.6	91.5	25
Personal Income Tax[f]	8,510.4	100.0	0	8,510.4	100.0	0
General Sales Tax	7,803.5	91.8	1	8,102.0	95.3	2
Bond Issue Proceeds	6,548.4	72.7	4	8,982.2	99.7	9
Business Income Tax[f]	2,195.8	100.0	1	2,195.8	100.0	1
Motor Fuel/Vehicle/Operator	2,615.5	93.1	3	2,615.5	93.1	3
Short-Term Borrowing	1,499.6	100.0	1	1,499.6	100.0	1
Public Utility Tax	1,268.8	80.7	1	1,362.0	86.6	2
Healthcare Provider Taxes/Fees	1,555.8	98.8	3	1,555.8	98.8	3
Gambling	1,069.9	70.2	1	1,506.5	98.9	2
Excise Taxes (other)	1,033.2	82.4	1	1,093.2	87.2	2
Licenses, Fees & Registrations	339.9	67.6	3	343.8	68.4	4
Investment Income	38.8	84.0	11	42.1	91.2	17
Fines, Penalties & Violations	20.8	19.9	1	20.8	19.9	1
Corporate Franchise Taxes	208.1	97.7	0	208.1	97.7	0
Other Cash Receipts	1,980.7[d]	43.0	11	4,393.1[d]	95.4	28
Total Receipts	50,594.8[e]	81.3	22	59,195.3[e]	95.1	56

[a] Preliminary, final *Detailed Annual Report* for FY10 not yet released.
[b] See Documentation at http://igpa.uillinois.edu/fiscalfutures/research for category definitions.
[c] Includes principal and interest payments for short-term borrowing. Excludes escrow payments.
[d] Estimate.
[e] Excludes transfers from or to non-general funds.
[f] Net of transfers to Refund Fund.

**Figure 4: Transportation Expenditures,
Capital and Non-Capital, 1997-2010 (billions of 2011 dollars)**



Sources: IGPA Fiscal Futures Model, using Illinois Comptroller, *Detailed Annual Reports*, for FY 1998-2009; Illinois Comptroller's website, expenditures for FY 2010.

or 50 funds (or 22 or 55 or any other number). The broader the scope, the larger the number of funds included, the greater is the completeness and accuracy of the budget picture presented. On the other hand, from the perspective of budget presentation, it might be clearer and more understandable to show 22 funds rather than 55, especially for those who are unfamiliar with any funds outside of the General Funds.

A Third Policy Option: Redefining the List of General Funds

The two policy options presented above expanded the list of funds included in budget reports and differ only in the number of additional funds brought into the frame. Another alternative is to formally redefine which funds are designated as General Funds. This would have the advantage of greater understandability and clarity in budget presentation. Any list of funds re-designated as General Funds would have to be carefully considered, but as a first cut we suggest the 14 large funds from our list of 22 other than the 8 highway and toll highway funds.

Establishing a consistent budget frame

By using fund amounts from a single, past year we have illustrated that 80 to 90 percent of full consolidation could be achieved with around 20 or 50 additional funds. But to be meaningful over time, the reporting budget needs to be framed as more than just a list of specified funds. That is because anything short of full consolidation leaves possible the types of confusion or manipulation shown in the examples earlier in this paper.

For year-to-year expenditure and revenue comparisons, the budget-reporting frame needs to be consistent. From one year to the next, the magnitude, purpose, expenditure objectives, or sources of receipts for any particular fund can change. Transfers can be made between funds inside and outside the reporting frame. Every year, the state creates new funds and deactivates others. Periodically, as with a new administration, agencies are renamed and programmatic responsibilities are reassigned. For this reason, each fiscal year it will be necessary to evaluate objectively each of the important revenue and expenditure categories to determine how these align with the state's fund structure. Starting from a list of existing funds is a very practical way of deciding how to implement consolidated budget reporting, but the list of funds cannot stay the same over time.

Whoever has the responsibility of monitoring the budget frame needs to be alert to:

Table 3: General Funds, Plus 22 Funds, and Plus 55[a] Funds by Type and FY2010 Amount

Fund No.	Fund Type	Fund Name	Expenditure[b] ($million)	Receipts[b] ($million)
0001	General	General Revenue	21,013	23,904
0005	General	GR-CS Special Account	0	1,588
0007	General	Education Assistance	1,253	723
0412	General	Common School	4,051	226
Subtotal of General Funds (does not include transfers)			**26,318**	**26,441**
0101	Debt Service	General Obligation BR&I	3,987[c]	1,666
0472	Special State	Pension Contribution	3,452	3,452
0011	Highway	Road	2,578	2,747
0012	Highway	State Motor Fuel Tax	89	1,269
0413	Highway	Motor Fuel Tax - Counties	203	0
0414	Highway	Motor Fuel Tax - Municipalities	284	0
0415	Highway	Motor Fuel Tax - Townships Road Dist.	92	0
0561	Fed Trust Approp.	SBE Federal Dept of Education	1,918	1,779
0907	Special State	Health Insurance Reserve	1,487	214
0346	Special State	Hospital Provider	1,909	2,079
0189	State Trust Non-Ap.	Local Government Tax	1,474	1,495
0793	Special State	Healthcare Provider Relief (new fund)	1,467	1,350
0329	Special State	County Provider Trust	1,400	1,374
0455	State Trust Non-Ap.	Illinois State Toll Highway Revenue	1,292	1,203
0515	Special State	Local Government Distributive	1,199	0
0802	Special State	Personal Property Tax Replacement	1,161	1,113
0345	Special State	Long Term Care Provider	786	707
0902	Highway	State Construction Account	732	464
0971	Bond Financed	Build IL Bond	703	1,032
0733	Special State	Tobacco Settlement Recovery	648	653
0410	Fed Trust	SBE Federal Dept of Agriculture	630	586
0711	Special State	State Lottery Fund	402	1,070
Subtotal of General Funds plus 22 Funds			**50,224**	**50,694**
For comparison: Fiscal Futures Consolidated Total			**64,387**	**62,237**

Table continued and footnotes on next page.

• **New funds.** New funds can be very significant. An example is the Health Care Provider Relief Fund (0793), which was created for FY 2010 to "receive and record monies obtained from short-term borrowing agreements, associated federal matching funds and earned interest…." according to the Comptroller's website. The FY10 receipts of this fund included over $1 billion in federal dollars that were used for Medicaid.

• **Dead or dormant funds.** Sometimes funds are established to receive lump sum payments and the balance is drawn down over a few years, eventually reaching zero. Sometimes dormant funds remain on the books for years with a zero balance, and then are reactivated when new dollars are received. When funds are de-activated, their identifying numbers may be reassigned to newly-created funds, which means that researching long-dead funds can be very difficult.

• **Year-to-year changes in assignment** of expenditure responsibility from in-frame to out-of-frame funds or vice versa.

• **Transfers into or out of funds included in the frame.** Some current reporting of the General Funds budget includes transfers in and transfers out. Requiring that reports of a General-Funds-plus budget include transfers

Table 3 (continued): General Funds, Plus 22 Funds, and Plus 55[a] Funds by Type and FY2010 Amount

Fund No.	Fund Type	Fund Name	Expenditure[b] ($million)	Receipts[b] ($million)
Subtotal of General Funds plus 22 Funds (see prior page for details)			**50,224**	**50,694**
0728	Special State	Drug Rebate Fund	500	301
0627	Special State	Public Transportation	404	0
0220	Special State	DCFS Children's Services	381	383
0553	Bond Financed	Transportation Bond Series A	379	1,011
0270	Special State	Water Revolving	330	323
0700	Fed Trust	USDA Women, Infants, & Children	295	293
0970	Debt Service	Build IL BR & I	275	0
0052	Fed Trust	Federal Title III Soc. Sec. Employment	273	267
0663	Fed Trust	Federal Student Loan	235	228
0870	Fed Trust	Low Income Home Energy Block Grant	234	241
0913	Special State	Federal Workforce Training	232	251
0408	Fed Trust	DHS Special Purpose Trust	222	203
0314	Revolving	Facilities Management Revolving	201	176
0136	Special State	University of IL Hospital Service	193	210
0188	State Trust Non-Ap.	County and Mass Transit District	192	299
0063	Fed Trust	Public Health Services Fund	157	155
0355	Special State	Special Education Medicaid Matching	152	124
0054	Special State	State Pensions	145	0
0304	Revolving	Statistical Services Revolving	145	154
0502	State Trust	Early Intervention Services Revolving	143	75
0141	Bond Financed	Capital Development	141	397
0648	Special State	Downstate Public Transportation	138	0
0332	Revolving	Workers' Compensation Revolving	125	2
0129	Special State	State Gaming	109	479
0312	Revolving	Communications Revolving	109	107
0095	Fed Trust	Federal / Local Airport	74	99
0421	State Trust	Public Aid Recoveries Trust	30	610
0554	Bond Financed	Transportation Bond Series B	24	219
0143	Bond Financed	School Construction	18	417
0105	Debt Service	Illinois Civic Center BR&I	14	0
0568	Special State	School Infrastructure	0	153
0935	Fed Trust	Social Services Block Grant	0	119
0482	Fed Trust Non-Ap.	Unclaimed Property Trust	0	194
Subtotal of General Funds plus 55 Funds			**56,094**	**58,184**
For comparison: Fiscal Futures Consolidated Total			**64,387**	**62,237**

[a] Analysis of multiple years includes a fifty-sixth fund—0367: Medicaid Provider Relief—that was significant in FY 2004 and 2005, but did not exist in 2010.

[b] To avoid double counting, inter-fund transfers are not counted in these numbers. Initial receipts are assigned to one fund and final expenditures to another. In FY 2010, the Comptroller reported total transfers into the General from non-general funds were $2.3 billion and transfers out of the General Funds were $5.7 billion. Most of these transfers are to or from large, key funds and are therefore captured by the 22- and 55-fund frames.

[c] Includes only current year debt service payments and not deposits in escrow for future payments.

in and transfers out would facilitate monitoring to maintain a consistent frame.

Each year's monitoring of the reporting frame should start with the list of funds in the prior year's frame, and make adjustments based on new fund, reassignments, and transfers.

Conclusion

The state of Illinois has approximately 650 separate funds for accounting purposes. However, most discussion of the state budget concentrates just on the four General Funds. While the General Funds do represent most discretionary spending and unrestricted revenue, the special funds are very important to the overall fiscal picture of the state, because in total, the General Funds account for less than half of all spending and cash receipts in the state.[17] Ignoring the more than half accounted for by special funds gives a narrow, and thus distorted, picture of the state's fiscal situation. A governor who knows that the public attention will be focused almost exclusively on the General Funds can manipulate the discussion of fiscal conditions by mere accounting changes.

Transfers between General and non-general funds or year-to-year changes in whether an item is assigned to a General or non-general fund can make it very hard to distinguish which fiscal changes are real and which are merely changes in accounting. We have illustrated these problems with a number of examples.

In our *Fiscal Futures Project* we have addressed these concerns by creating a Consolidated Funds Budget for the state of Illinois that combines around 380 separate funds. Consolidated reporting means transfers between funds net out, so that the comprehensive budget measures genuine changes. Likewise, changes in assignment from General to non-general funds do not change the consolidated total. Full consolidation is most feasible after the end of a fiscal year when full detail on the receipts, spending, transfers in, transfers out, and changes in fund balances are available for all funds. It would be very difficult to present and report a fully consolidated budget prior to the beginning of a fiscal year—the data and information needs are just too great.

In this paper we examine three practical alternatives to full consolidated fund reporting. We demonstrate that reporting just 22 to 55 funds in combination with the four General Funds would capture 80 to 90 percent of the dollar amount of full consolidation. General Funds plus 22 or General Funds plus 55 would eliminate many of sources of confusion and opportunities to intentionally mislead that go with General Funds-only reporting.

As a third alternative, we suggest formally changing the designation of 15 or so of the largest non-highway funds to General Funds. This would have the advantage of greater simplicity in presentation. We present a number of arguments why highway funds should be included in any consolidation, but the exclusion of highway funds does avoid problems of interpreting routine over-appropriation for highway construction.

We emphasize that combined or consolidated *reporting*—or even re-designation of some special funds as General—does *not* mean that any *accountability and control* restrictions on the use of particular funds have to be changed. Rather we are suggesting that those funds be brought fully into view.

It is important to note that with anything short of full consolidation, transfers or reassignments between on-budget and off-budget funds can still distort or be used to misrepresent the actual fiscal situation. For that reason, a 20-fund, or 50-fund, or expanded General Fund reporting frame cannot be static and must be constantly monitored to achieve the intent of consistent reporting.

[17] Direct General Fund expenditures are 40.4 percent of consolidated total expenditures. Direct General Fund expenditures plus transfers out are 46.8 percent of consolidated total expenditures.

THE FISCAL FUTURES PROJECT

igpa.uillinois.edu/fiscalfutures

The Fiscal Futures Project began in 2008 out of concern that the state of Illinois lacked sufficient capacity to project its fiscal demands and revenue streams into the future. A longer term perspective is needed because of:

- The structural deficit: state expenditures have been growing faster than revenues
- The serious consequences of making policy choices while ignoring the impact on the budget in future years
- The relentless pressure on future budgets from an aging population and continuing increases in the cost of health care

Seed money for the project came from IGPA and a diverse group of Illinois civic and public interest organizations.

- The Taxpayers' Federation of Illinois
- The Civic Committee of the Commercial Club of Chicago
- The Metropolitan Planning Council
- The Illinois Farm Bureau
- Council 31 of the American Federation of State, County and Municipal Employees
- The Illinois Education Association
- Chicago Metropolis 2020.

Currently the project is supported by a generous grant from the John D. and Catherine T. MacArthur Foundation.

The Consolidated Funds Budget and the Fiscal Futures Model

The project team has created and annually updates a consolidated funds budget for the state of Illinois. Historical budget data for 380 state funds—not just the 4 General Funds—is grouped into a meaningful set of revenue and spending categories, consistently measured over time. Compared to the more commonly reported General Funds budget, the consolidated budget is more inclusive and brings important categories of spending like transportation into the analysis. The consolidated budget is more transparent because inter-fund transfers or moving a program from a General Fund in one year to a special fund in the next will not conceal what is really going on.

The project team has created and maintains a long-term budget projection model for the state of Illinois. Projections of economic and demographic variables are supplied by the Regional Economics Application Laboratory. The Fiscal Futures Model estimates the past relationship between each consolidated-funds budget category and the related economic and demographic variables in order to make projections for each component and for total revenue and spending.

With the consolidated funds budget and the budget projection model the Fiscal Futures Project is able to:

- Provide a new level of budget coverage and transparency previously not seen in Illinois.
- Provide legislators, public policy makers and the public with a picture of the future budget situation.
- Simulate the impact on future budgets of proposed policies and legislation, or different assumptions about economic trends.