Fiscal Year 2008 Budget

Investing in Illinois’ Families

HEALTH CARE | EDUCATION | PENSIONS | TAX FAIRNESS
Long Standing Issues

Structural Budget
- Not including the service economy
- Ineffective outdated corporate income tax
- Size and growth of state government

Pension
- Insufficient funding for more than 30 years
- Unfunded liability of $40.7 billion
- An unpaid debt with interest of 8.5%
Issues and Obligations

Long Standing Obligations

Structural Budget
  • Reduce the size of government
  • Change the direction of government spending
  • Revenues that grow with the economy

Pensions:
  • Initiated benefit reforms
  • Increased funded ratio to 60%
  • Reduce the future deferment of payments and reduce the pension debt to affordable level

Health Care:
  • All Kids
  • Family Care
  • Managed care
  • 1.4 million uninsured

Education:
  • Invested $3.8 billion in 4 years
  • Opened access to universal preschool
  • Raised performance standards for high schools
  • Growing inequity in school funding
Where We Started

- Expected $5 billion operating deficit
- $43 billion pension debt—48% funded level
- $4.1 billion existing GAAP deficit
- Inflated state payroll
- 250,000 jobs already lost during economic recession
• Eliminated expected operating deficit  
• Reduced long-term pension debt, invested $13 billion and increased funded level to 60.5%  
• Reduced historical GAAP deficit by 44% - (to $2.3 billion)  
• Cut 13,000 state payroll positions, saving $900 million annually  
• Jobs:  
  – Illinois leads Midwest in job growth for 3 years  
  – In January, Illinois ranked #1 in the country with a gain of 19,900 new jobs  
  – Three-month moving average unemployment rate was 4.3% in January, 3rd lowest average rate since May 1999
The State's workforce is down over 13,000 employees from FY2002. The all-in cost savings average about $73,750 per employee in FY2006. The headcount reduction continues to provide structural budgetary savings in the form of forgone salary and fringe benefit costs.

**Costs of an Average Employee**
- Salary: $52,839
- Fringe Benefits: $20,917
- including health care, pension and employer taxes
- **TOTAL**: $73,756

Savings From Headcount Reductions Increase Each Year
GAAP-BASED ANNUAL RESULTS *

(in $millions)

FY82 to FY06

* GAAP-Basis Results represent the change in the GAAP-Basis fund balance of General Funds from the prior fiscal years.
GAAP-BASED RESULTS BY GOVERNOR *

(in $millions)

$163.8
$901.3
($3,863.2)
$1,837.9

Edgar I
Edgar II
Ryan
Blagojevich

* GAAP-Basis Results represent the change in the GAAP-Basis fund balance of General Funds for the four budgets submitted by each Governor. (Blagojevich is 3 years only since FY07 is still in process).
The accumulated fund balance deficit of the General Funds has been reduced by over $1.8 billion under Governor Blagojeveich.
Where We Started—Escalating Pension Debt

From FY93 to FY03, pension payments were underfunded by at least $870 million annually.

Pensions were underfunded every year for more than 30 years.

The Total UNDERFUNDING increased from 1982 – 2003 by $18.5 Billion.
Reducing the Cost of Running Government

General Funds Spending 1997-2006
Illinois has had the highest job growth in the Midwest since 2004.

- Created 160,000 new jobs to bring unemployment levels down to near record lows
- Raised the minimum wage for 450,000 workers and guaranteed equal pay for women
- Unemployment of 4.6% is near all-time lows

Source: Bureau of Labor Statistics, Midwest Region
Pension Systems Accrued Liability in 2045
PA 94-4 has already reduced pension liability by $83 Billion (16%)

Pension reform also contains a long-term viewpoint – according to the system actuary reports, the liability of future generations of taxpayers has been reduced by $83 billion as a result of pension reform passed and signed by Governor Blagojevich.

Source – System Actuarial Reports
Under the terms of the 1995 Funding Plan, a 60.5% funded ratio (Actual 2006) was not planned for until 2016.
THE FY2008 PROPOSAL: $26 BILLION ASSET INFUSION

State Contribution Including Debt Service

Current Funding Plan
Extra $10 B, New $16 B POB, 90% in 2040
90% thereafter
Normal Cost

TOTAL SAVINGS OF OVER $60 BILLION

90% Funded Ratio in 2040
Immediate cash infusions allow the state to fund the annual pension contribution affordably

$26 billion will:

• Immediately increase the pension system’s funded ratio to over 83%, 34 years ahead of the current 50-year funding plan schedule.
• Make annual payment schedule more predictable and affordable and reach 90% funded ratio in 2040, five years early.
• Replace interest rate on $16 billion in pension debt (at 8.5%) with a lower rate.
• Over the next 10 years, save over $1 billion per year that the state can use to fund core priorities, like education and healthcare.
• Bottom Line: Saves over $60 billion!
## Pension Reforms Cure Structural Budget Deficits

<table>
<thead>
<tr>
<th></th>
<th>First Year Costs</th>
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<td>$2,387</td>
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</tbody>
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* Discounts Gross Receipts, Lottery Lease and Illinois Assessment Revenues

** Discounts Covered Illinois, Education Funding Increases, Property Tax Relief and Capital Program

($ in millions)
Rising Uninsured, Rising Costs & Thoughtful Solutions

- **Rising uninsured**: Over 1.4 million adults in Illinois are uninsured.
  - 320,000 are below the Federal Poverty Level.
    - ($10,210 for an individual, or $20,650/year for a Family of 4)
  - Almost 800,000 are middle class.
    - (Earn between 100% - 400% of the Federal Poverty Level)

- **Rising Costs**:
  - Nationally, the cost of premiums for family coverage ($11,480) exceeds the earnings of a full-time, minimum wage worker ($10,712).
  - Health insurance premiums for employers increased nearly 87% between 2000 and 2006.

- **Thoughtful Solutions**:
  - Based upon the Health Care Task Force’s deliberations including both mandated and non-mandated models
  - Navigant and Mathematica developed assumptions then analyzed and estimated costs
  - Mercer conducted independent audit of all estimates and assumptions
  - Budget reflects conservative forecasts
1. Illinois Covered Choice – Small businesses and individuals will be able to buy into guaranteed, affordable private plans.

2. Illinois Covered Rebate – Middle class families will be able to get help paying their premiums.

3. Illinois Covered Assist Expanding Existing Programs – Low-income adults and middle class families will be able to get coverage through healthcare program expansions and a new program to cover adults under poverty without children.

4. Reform the Health System – Strengthen family coverage, better manage chronic diseases, and make the system transparent.

5. Strengthen Family Coverage – Allow parents to keep their young adult dependents on their insurance policy until they are age 29.
Who Does Illinois Covered Cover?

Before

1.4 Million uninsured

After

Illinois Covered Assist (Income under 100% FPL)
Illinois Covered Choice (Income between 100- 400% FPL)
Illinois Covered Rebate
Family Care Expansion
HBWD

*Relative to Federal Poverty Level
Illinois Covered – Everyone Will Benefit

• **Everyone in the state will benefit** from reforming the healthcare system through stronger family coverage, new consumer protections, system improvements and a roadmap to health for wellness and managing chronic disease. (Estimated Cost: $16 million)

• **Over 1 million people and small businesses** will be able to purchase Illinois Covered Choice, a new guaranteed, affordable insurance product offered by the state. (Estimated Cost: $225 million)

• **Millions of people** will be eligible for help paying their health insurance premiums through Illinois Covered Rebate. (Estimated Cost: $850 million)

• **500,000 middle class and low-income families** will be eligible for coverage from Illinois Covered Assist or the FamilyCare expansion. (Estimated Cost: $950 million)

• **Illinois Covered Assessment** - A payroll tax on businesses of 10 or more employees that choose not to pay or pay very little health care costs for their employees.
$10 billion will be invested in schools over the next 4 years.

- In Fiscal Year 2008 the state will invest $1.5 billion.
- This is the largest one-year increase ever.
- Much of the increased funding is tied to performance & accountability measures.

This continues Governor Blagojevich’s record of providing more education funding than any administration in history.
Invest in Education

$1.5 billion increase in education funding in FY 08

ISBE Fiscal Year 2008 Appropriation
$8,027
Illinois’ Unfair Tax System

Tax burden on individuals is growing

– The tax burden on individuals has been steadily rising since the 1970s. Then, individuals paid $4.00 in income taxes for every dollar paid by corporations. By 2004, the ratio jumped to $7.12 – an increase of 75%.

Many large businesses avoid taxes because of loopholes and apportionment

– On average from 1997 - 2004, nearly half of all corporations with at least $50 million in annual Illinois sales did not pay any state income taxes.
– 37 Fortune 100 companies paid NO Illinois state income taxes in 2004. These companies averaged $1.2 billion in sales in Illinois during that year.

Illinois’ tax system is out of date, and relies too heavily on “old economy” biz

– The Corporate Income Tax (CIT) is designed for taxing “old economy” businesses that produce goods and, therefore, doesn't adequately capture tax revenue from services businesses that make up the majority of today's economy:

- Goods-based businesses make up only 35% of Illinois’ economy, but pay 53% of CIT
- Services-based businesses make up 65% of Illinois’ economy, but pay only 47% of CIT

This flawed and unfair system must be reformed
Illinois’ Unfair Tax System

What are some of the options for tax system reform?

– Corporate income tax increase: Regardless of how much the CIT rate is increased, it won’t make those who already avoid paying taxes pay a penny more – only those who already pay taxes will. Not a fair alternative.

– Individual income tax increase: Individuals are already unfairly burdened with paying the far majority of income taxes, and it is a regressive tax. Not a fair alternative.

– Expanding sales tax on services: Already assessed at a high (5% to state) rate. Regressive tax on consumers. Not a fair alternative.

These alternative revenue options only reinforce existing tax inequities
Over $7 billion per year in new revenue

- Gross receipts tax will be applied beginning January 1, 2008.
- All taxes are imperfect and disruptive – broad base allows low rates to minimize both.

- Companies over $2 million will pay
  - 0.85% rate for sales, manufacturing, construction and related activities
  - 1.95% rate for services provided

- Companies with more than $2 million in Illinois sales will pay the GRT; companies with Illinois sales under $2 million will pay CIT.

- Net of CIT credits, IDOR estimates over $7 billion in new revenue generated per year when fully implemented.

- Provides $1 billion in property tax relief to homeowners across Illinois.
- Provides a stable and growing revenue source to reduce structural pressures on the state budget.
## Tax Fairness

### Governor Proposal
- Broad base (reaching all sectors of economy)
- A low rate
  - .85% (goods)
  - -1.95% (services)
- Funds education
- Access to health care
- Manages pensions
- Structural budget reform

### Other Proposals
- 5% individual income tax (on all personal income)
- 8% corporate income tax
- 5 - 9.25% sales tax
- Some property tax reduction
- Funds education
- No access to health care
- Extends pension liability 50 additional years
- Continues structural challenges

### Do Nothing
- No funding for education
- No access to health care
- Ignores pension liability
- No structural reform
Who will not be impacted?

- **Small Business.** Businesses that have total revenues of under $2 million per year will not be subject to the Gross Receipts Tax. This represents more than 85% of all businesses in Illinois.

- **Exporters.** All goods and services exported from Illinois to other states and globally are exempted. Imports will be taxed.

- **Essential Products.** Retail sales of foods and drugs will not be subject to the Gross Receipts Tax, and payments that hospitals, doctors, and dentists receive from the state for service Medicaid patients will also be exempt.

- **Industries with Alternative Taxation.** Gaming and Insurance products, which pay alternative taxes, will not be subject to GRT tax for those products.

- **Corporate Income Taxpayers.** All businesses who pay corporate income taxes will receive a 100% tax credit, and the corporate income tax will be ultimately eliminated.

These are some of the steps in this plan that will help mitigate “pyramiding” opportunities.
**Does the GRT tax the following sales?**

<table>
<thead>
<tr>
<th>ISSUE: Does this GRT apply to specific sales?</th>
<th>Washington</th>
<th>Ohio</th>
<th>Illinois</th>
<th>Tribune Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales between Company Divisions (Vertically integrated manufacturer like GM)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Sales to Unaffiliated Company (Wholesaler sells goods to retailer who sells to consumer)</td>
<td>Yes</td>
<td>Yes</td>
<td>Most Small business/policy exemptions</td>
<td>Yes</td>
</tr>
<tr>
<td>Sales to Affiliated Companies (Combined reporting)</td>
<td>Yes</td>
<td>No (“Combination” rule)</td>
<td>No (“Combination” rule)</td>
<td>Yes</td>
</tr>
<tr>
<td>Exports to Out-of-State Destinations</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Not-For-Profits</td>
<td>Some</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Small Businesses</td>
<td>Yes</td>
<td>Exemption for Companies less than $100k, fee for less than $1m</td>
<td>Exemption for Companies with less than $2 million</td>
<td>Yes</td>
</tr>
<tr>
<td>Capital assets and securities trading</td>
<td>Some</td>
<td>No</td>
<td>Differential Treatment</td>
<td>Yes</td>
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</table>

*NOTE: Above responses reflect general rules; limited exceptions exist.*
## Difference between Estimates of GRT Base

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<tr>
<th>Approach</th>
<th>Description</th>
<th>Base</th>
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<tr>
<td><strong>Cook County Assessor Study</strong></td>
<td>GRT estimate ($1,300B) is based upon an expansive view of the tax base with no adjustments or exemptions. (NOTE: This is base used in Tribune editorial)</td>
<td>$1,300B</td>
</tr>
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<td><strong>Less: Adjustments</strong></td>
<td>Intermediate Sales (small businesses and combination rule), Policy Exemptions, Not-For Profits/Tax-Exempt Entities, Exports, Compliance (Collection) adjustment</td>
<td>($525B)</td>
</tr>
<tr>
<td><strong>Equals: State Estimate for FY2008</strong></td>
<td>State's GRT estimate ($775B) is based upon a narrower view of the tax base by reducing “pyramiding” effect, not taxing exports, and accounting for the actual compliance experience of Ohio. (Differs from GSP).</td>
<td>$775B</td>
</tr>
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</table>
Washington State Experiences Solid Economic Performance with Long-standing GRT

Washington State outperformed the US economy from 1980-2005 and is a larger exporter than Illinois at half its size.

Per U.S. Bureau of Economic Analysis, growth in Personal Income and Gross State Product for both Washington and Delaware exceeded U.S. averages over past 10 years.

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** Discounts Covered Illinois, Education Funding Increases, Property Tax Relief and Capital Program
New State Revenues Support Bold Initiatives

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<th>Senate Bill 1</th>
<th>First Year Costs</th>
<th>Fully Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2008</td>
<td>FY2011</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illinois Gross Receipts Tax</td>
<td>$3,246</td>
<td>$8,426</td>
</tr>
<tr>
<td>(rates .85% / 1.95% -2 million floor)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illinois Covered Assessment</td>
<td>$-</td>
<td>$1,160</td>
</tr>
<tr>
<td>Federal Revenue from Illinois Covered</td>
<td>$63</td>
<td>$236</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$3,309</td>
<td>$9,821</td>
</tr>
<tr>
<td><strong>Spending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Education Funding</td>
<td>$1,500</td>
<td>$3,000</td>
</tr>
<tr>
<td>Illinois Covered- Health Insurance</td>
<td>$374</td>
<td>$3200-4000</td>
</tr>
<tr>
<td>Increased Medical Provider Rates</td>
<td>$90</td>
<td>$478</td>
</tr>
<tr>
<td>Offset Road SOS and ISP to GRF</td>
<td>$226</td>
<td>$226</td>
</tr>
<tr>
<td>Property Tax Relief</td>
<td>$500</td>
<td>$1,000</td>
</tr>
<tr>
<td>Pension Reform (Lottery Revenues)</td>
<td>$542</td>
<td>$650</td>
</tr>
<tr>
<td>Capital Program Debt Service</td>
<td>$12</td>
<td>$140</td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td>$3,244</td>
<td>$8,694-9,494</td>
</tr>
<tr>
<td><strong>Total Surplus (Deficit)</strong></td>
<td>$65</td>
<td>$327-1,127</td>
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* Cost estimate depending on implementation of Individual Mandate

New revenues invested outside of State government
$14 billion capital program for projects including:
- $4.8 billion for road construction projects
- $650 million for construction at public colleges and universities
- $200 million for public transit projects
- $100 million for Illinois Community Assets Fund
- $123 million for Governor’s Energy Plan

$7.5 billion in new bond authorization requested including:
- $1.7 billion for K-12 school construction projects
- $3 billion for road construction projects
  - Eliminates road fund transfers that began during Edgar administration
- $750 million for Energy Plan
- $600 million for Higher Education
- $450 million for capital asset maintenance and improvements
- $425 million for public transit projects
- $200 million for environmental projects
### Fiscal Year 2008 Operating Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>FY07</th>
<th>FY08</th>
<th>Growth</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$28,493</td>
<td>$28,742</td>
<td>$249</td>
<td>0.9%</td>
</tr>
<tr>
<td>Economically Sensitive</td>
<td>$18,174</td>
<td>$18,828</td>
<td>$654</td>
<td>3.6%</td>
</tr>
<tr>
<td>Individual IT</td>
<td>$9,130</td>
<td>$9,519</td>
<td>$389</td>
<td>4.3%</td>
</tr>
<tr>
<td>Corporate IT</td>
<td>$1,688</td>
<td>$1,733</td>
<td>$45</td>
<td>2.7%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$7,356</td>
<td>$7,577</td>
<td>$221</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>New Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Gross Receipts Tax</td>
<td>-</td>
<td>$3,309</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other New Revenues</td>
<td>-</td>
<td>$147</td>
<td>$147</td>
<td></td>
</tr>
<tr>
<td>Loss of Lottery</td>
<td>$650</td>
<td>$108</td>
<td>(542)</td>
<td></td>
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<td><strong>Spending</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency Appropriations*</td>
<td>$18,346</td>
<td>$19,713</td>
<td>$1,367</td>
<td>7.5%</td>
</tr>
<tr>
<td>Statutory Transfers Out</td>
<td>$3,091</td>
<td>$3,101</td>
<td>$10</td>
<td>0.3%</td>
</tr>
<tr>
<td>Less Unspent Approp's</td>
<td>(510)</td>
<td>(398)</td>
<td></td>
<td></td>
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<tr>
<td><strong>New Spending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>P-12 Education</td>
<td>$7,420</td>
<td>$8,909</td>
<td>$1,489</td>
<td>20.1%</td>
</tr>
<tr>
<td>Property Tax Relief</td>
<td>-</td>
<td>$500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illinois Covered/Healthcare</td>
<td>-</td>
<td>$464</td>
<td>$464</td>
<td></td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td>$28,325</td>
<td>$32,289</td>
<td>$3,964</td>
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<tr>
<td><strong>Total Surplus</strong></td>
<td>$168</td>
<td></td>
<td>17</td>
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* Excludes ISBE
General Funds Increases $3 Billion from FY 2007 in Priority Funding Areas

- K-12 Education: 1,500
- Health Care: 568
- Illinois Covered: 464
- DHS, DCFS and DJJ*: 272
- Public Safety**: 85
- Group Insurance: 70
- Aging: 55
- Higher Education: 40
- Childcare: 33
- All Other Agencies Net Change: (8)

*Department of Human Services, Department of Children and Family Services and Department of Juvenile Justice
The Fiscal Year 2008 budget:

- Proposes a long-term revenue source to meet the ongoing costs of providing state services such as education and health care.
- Proposes to reform the state’s existing tax system and include all sectors of the economy.
- Provides every adult in the state with access to affordable health care, as already provided to our state’s children.
- Provides our schools with the single largest one-year funding increase and an historic $10 billion investment over the next four years.
- Improves Pension funding significantly: 83% funded, 90% attained 5 years earlier, and saves over $60 billion.
Selected Financial Information
FY 2008 Operating Appropriations by Major Purpose

All Funds Total - $49.06

- Human Services: 16.5%
- Education: 28.6%
- Healthcare And Family Services: 31.9%
- Government Services: 9.2%
- Economic Development And Infrastructure: 7.0%
- Public Safety: 5.1%
- Environment And Business Regulation: 1.6%
Fiscal Year 2008 Operating Appropriations by Major Purpose
General Funds Total - $28.86 Billion

- Education: 38.7%
- Healthcare And Family Services: 29.2%
- Human Services: 20.1%
- Public Safety: 5.4%
- Government Services: 3.6%
- Initiatives: 1.6%
- Economic Development And Infrastructure: 1.0%
- Environment And Business Regulation: 0.3%