

ICCTA ACTION ALERT

April 4, 2008

The Illinois General Assembly concluded a contentious week of legislative business on Thursday afternoon. Lawmakers are scheduled to return to Springfield on Tuesday, April 8. Although some legislation is advancing through the "off year" 2008 session, most business relates directly to the creation of a Fiscal Year 2009 budget and to solutions for nagging issues that have developed with the state's current FY08 budget.

Problems have developed with the state's current (FY08) budget over the past few months partly because revenue sources are not performing up to earlier expectations. This Action Alert will focus on the state's budget controversies; a report on legislation and bills impacting community colleges will follow in a later report.

A Conversation with the Governor's Office of Management and Budget

A telephone conference call with the Governor's Office of Management and Budget (GOMB) occurred on Friday morning, March 28, for the purpose of discussing issues related to the FY08 community college system's state budget. Present for the conference call were John Filan (Director, GOMB), Geoffrey Obrzut (CEO, ICCB), Terry Bruce (Chair, Presidents Council), Kathy Wessel (President, ICCTA), and Mike Monaghan (Executive Director, ICCTA).

Mr. Filan explained that transferring or "sweeping" unexpended dollars from over 200 of the state's special purpose funds into the state's General Revenue Fund (GRF) would be necessary to sustain currently approved FY08 appropriations level. The General Revenue Fund is the state's primary operating fund and receives all of the revenues generated from the Personal Income Tax, the Corporate Income Tax, the State Sales Tax, as well as several additional smaller sources of revenue. Each year for the past few years, at the request of GOMB, transfers from over 200 special purpose funds have been approved by the General Assembly to shore up the GRF and fund the state's budget.

During the teleconference, community college representatives learned that some legislators may have concerns about continuing the practice of "sweeping" unspent dollars from these special purpose funds. Mr. Filan estimated that approximately \$750 million will be needed from fund transfers and the closure of tax "loopholes" to address a projected \$800 million shortfall in the state's FY08 budget year, which ends June 30. The fund transfers alone can generate \$530 million for deposit into the GRF. Without these fund transfers, state budget decisionmakers will be faced with the probability of making significant reductions in state funding for the balance of FY08.

Mr. Filan is asking many groups, including Illinois community colleges, to encourage the General Assembly to approve the transfer from or "sweeping" of many special purpose funds into the GRF for FY08. He has indicated that if the legislature does not approve the fund transfers, it is possible that no payments of state funds could be made to certain agencies for the month of June. This could effectively result in an 11-month state budget for community colleges, instead of 12 months of funding for the current fiscal year. If this reduction in funding occurs, community college state funding for FY08 could be reduced by 8.3 percent, or approximately \$25 million.

In order to better comprehend the complexity of fund transfers, we will attempt to provide some background and other information about this issue.

Transferring funds from special purpose funds into the General Revenue Fund is a relatively new practice that first began on a very limited basis in the late 1990s. Since 2003 the practice has continued until this year, when the fund transfers requested by the Governor for FY08 were not approved by the General Assembly.

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Special Purpose Fund

A *Special Purpose Fund* is a fund that is created for the sole purpose of addressing a specific need or program. A fee is charged to users of the program or service to fund that program. For example, the state has established a fee for an annual fishing license. People who wish to fish pay the fee for an annual license, and the fee is deposited into a special purpose fund held by the state. The dollars in the fund are used to establish fisheries, stock ponds with fish, and otherwise promote many aspects of fishing in Illinois, according to the law that established the fund and the fee.

Fund Transfers / Sweeping Funds

Several years ago, user fees for approximately 225 of the state's special purpose funds were significantly increased. The General Assembly agreed with the fee increases as a way to raise revenues. However, some lawmakers did not like the tactic of raising the fees so significantly. The concern was expressed that fees were increased to levels that are far higher than what the special purpose funds need to operate. Some have suggested that the high fee structures were established to create unexpended balances in these funds at the end of the fiscal year. Those unexpended balances are then transferred or "swept" into the General Revenue Fund to be spent on the operation of state government. The General Assembly must approve the transfer of these funds into the GRF each year.

During the last 12 months, several organizations adversely impacted by the fund transfers filed lawsuits seeking a judicial ruling regarding the legality of "sweeping" from special purpose funds to the GRF. The courts have ruled in some cases that it is improper to transfer dollars out of a special purpose fund.

It is this practice of transferring or "sweeping" funds from special purpose funds in to the state's GRF that community colleges have been asked to support.

General Revenue Fund Issues

The General Revenue Fund is the state's principle operating fund. It is the fund in which Personal Income Tax, Corporate Income Tax, Sales Tax and other revenues are deposited. K-12 funding, higher education funding, and much of the state's basic operating expenditures are paid out of the GRF.

Each year when the General Assembly and the Governor craft a budget, estimates are made to project the amount of revenue that the state will receive for a particular fiscal year. Most of the revenue will be General Revenue Funds. Last year, revenue estimates were made when the FY08 budget was under consideration. Then, through some painful negotiations, a state budget was approved that attempted to match expenses to revenue projections. According to Mr. Filan, an FY08 budget issue is developing because some of the revenue sources are not producing enough to meet the original expectations. This will leave the state with an apparent shortfall in the current budget.

According to Mr. Filan, revenue from Personal Income Tax receipts are strong and performing as expected. Corporate Income Tax revenues are down slightly from expectations, and Sales Tax revenues are significantly below expectations. The Personal Income tax is the largest source of state revenue; the Sales Tax is the second largest source. Altogether, it appears that the state will collect about **\$800 million less** in General Revenue Funds than is needed to fund the FY 08 budget.

Current Status

On Wednesday, April 2, the Illinois Senate approved legislation recommended by Senate Democrats that would allow the Governor to have discretion in transferring a record \$530 million from special purpose funds into the GRF. Now that the legislation has been approved by the full Senate, it goes to the Illinois House of Representatives, where its prospects are not clear. House Speaker Michael Madigan's office has not offered words of encouragement.

Community College Lobby Day is April 30
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