Illinois – Over the fiscal cliff
March 28, 2017

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Senior Policy Analyst
Voices for Illinois Children
The State’s bill backlog could reach nearly $28 billion by the end of FY19 absent any action.

- Amount needed in Fiscal Year 2018 to maintain current service: More than $7.2 billion
- Anticipated backlog of bills on June 30 of this year: $14.7 billion
- Additional pension contribution of $886 million (general revenue funds) for FY18 for a total of $7.9 billion (GRF).
How did we get here?

- **Shorted the pension system**

- **Adopted pension payment plan**

In 1994, the state first approved a back-loaded pension contribution ramp to meet 90% of its liabilities by fiscal year 2045.

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[GRF Pension Cost as a Percentage of Total General Funds](https://example.com/graph)

*Current Law*

 FY 1996 - FY 2045 (Projected)

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*Includes debt costs for pension obligation bonds*
As a result of the rapid increase in the last five years, pension contributions are taking a larger share of available revenue.

The impact: Less money to pay for other government services.

Result of Pension Ramp Law
(Costs exclude pension obligation bond debt service)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08</td>
<td>$1.7 billion</td>
</tr>
<tr>
<td>FY17</td>
<td>$7 billion</td>
</tr>
<tr>
<td>FY18 estimate</td>
<td>$7.9 billion</td>
</tr>
</tbody>
</table>
How did we get here?

➤ Left bills to next fiscal year

**GENERAL FUNDS BALANCES - CASH BASIS**

<table>
<thead>
<tr>
<th>FY 1996</th>
<th>Cash Balance June 30th</th>
<th>Lapse Spending</th>
<th>Balance on Budgetary Basis (After Lapse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1997</td>
<td>$426</td>
<td>$715</td>
<td>($292)</td>
</tr>
<tr>
<td>FY 1998</td>
<td>$806</td>
<td>$361</td>
<td>$45</td>
</tr>
<tr>
<td>FY 1999</td>
<td>$1,202</td>
<td>$846</td>
<td>$356</td>
</tr>
<tr>
<td>FY 2000</td>
<td>$1,551</td>
<td>$848</td>
<td>$503</td>
</tr>
<tr>
<td>FY 2001</td>
<td>$1,126</td>
<td>$326</td>
<td>$100</td>
</tr>
<tr>
<td>FY 2002</td>
<td>$256</td>
<td>$1,476</td>
<td>($1,220)</td>
</tr>
<tr>
<td>FY 2003</td>
<td>$1,017</td>
<td>$1,411</td>
<td>($1,094)</td>
</tr>
<tr>
<td>FY 2004</td>
<td>$182</td>
<td>$592</td>
<td>($410)</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$187</td>
<td>$971</td>
<td>($474)</td>
</tr>
<tr>
<td>FY 2006</td>
<td>$590</td>
<td>$281</td>
<td>($291)</td>
</tr>
<tr>
<td>FY 2007</td>
<td>$642</td>
<td>$777</td>
<td>($135)</td>
</tr>
<tr>
<td>FY 2008</td>
<td>$141</td>
<td>$975</td>
<td>($834)</td>
</tr>
<tr>
<td>FY 2009</td>
<td>$140</td>
<td>$3,933</td>
<td>($3,673)</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$130</td>
<td>$6,224</td>
<td>($6,094)</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$469</td>
<td>$4,976</td>
<td>($5,007)</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$40</td>
<td>$5,064</td>
<td>($5,024)</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$154</td>
<td>$4,142</td>
<td>($3,998)</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$74</td>
<td>$4,005</td>
<td>($3,931)</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$621</td>
<td>$3,521</td>
<td>($2,900)</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$246</td>
<td>$3,759</td>
<td>($3,523)</td>
</tr>
</tbody>
</table>

Source: Commission on Government Forecasting and Accountability
How did we get here?

➢ Income tax increase, then decrease

2011:
Individual: 3% to 5%
Corporate: 4.8% to 7%

Expected FY17 GRF revenue: $31.4 billion

Individual: 5% to 3.75%
Corporate: 7% to 5.25%

Estimated General Revenue Loss from reduced rates: $5 billion (FY14-17)
$36.7 billion in GRF spending for FY17

Approximately 35-40% of budget set by existing statute at the outset of the budget process: pensions, debt service, statutory transfers.

General Revenue Funds, In thousands

- Higher Education, $1,000
- Budget Stabilization for operations, $275
- Pension Payments, $6,984
- Health Insurance subsidies, $113
- Debt service, $2,370
- Transfers to local governments, $2,473
- Medicaid, $8,173
- PreK-12 funding, $7,474
- State employee salaries -GRF, $3,105
- Human Service appropriations, $701
- Human Service programs tied to consent decrees, $3,558
- DCFS Services, $427

Commission on Government Forecasting and Accountability FY17 budget analysis
FY17 budget

Here are just a few items not included in the spending:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>FY 2016 Amount</th>
<th>FY 2017 Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Insurance</td>
<td>$1,766.1</td>
<td>$1,810.0</td>
<td>Bill backlog totals $3.339 billion (as of 6-30-16)</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>$0.0</td>
<td>$947.7</td>
<td>Level to FY 2015</td>
</tr>
<tr>
<td>Other State programs and grants</td>
<td>$167.4</td>
<td>$167.4</td>
<td>Level to FY 2015</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$1,933.5</td>
<td>$2,925.1</td>
<td></td>
</tr>
</tbody>
</table>

That means with the:
• continuing appropriations,
• statutory transfers,
• court orders,
• consent decrees,
• full-year PreK-12 budget, and
• stop gap measures,

the **state is spending approximately 93%** of what would be a full-year budget....without approving one.

A number of human services and state agencies services were funded for only the first six months of FY17.
So, what’s the problem?

- Projected FY17 spending: $36.7 billion
- Add non-appropriated items: $2.93 billion

Total: $39.6 billion

If you count diversions for the Fund for Advancement of Education and Commitment to Human Services funds but remove amounts set aside for income tax refunds:

Expected FY17 GRF revenue: $31.4 billion

Difference: -$8.2 billion

Governor’s introduced budget lists an FY18 “maintenance budget” (no statutory changes regarding spending or revenue) at $39.7 billion....

more than $7.2 billion above expected FY18 revenue.
The three major bond rating agencies have Illinois general obligation bonds currently ranked two notches above junk bond status.

- Amount required to meet current service levels in FY17: $7.24 billion
- Outstanding bills as of 3/22/17: $12.84 billion
- Increase GRF pension contribution for FY18: $886 million
- Unfunded liabilities of pension systems: $129.8 billion

How deep is the hole?

How do you fill that kind of hole?
What if the state cuts?

Given the mandatory requirements, what gets cut to bring the budget in line without new revenue?

• PreK-12 education FY17 $7 billion; would close operational sh
tack bills or pension increase .)
• Higher education
• Non-mandated human services
• Public safety
• Economic development
• Other essential government services
“The Big Three”

- Individual Income Tax
- Corporate Income Tax
- Expansion of Sales Tax
Individual Income Tax

Increase the IIT from 3.75% to:

5%
additional revenue: $4.95 billion

6%
additional revenue: $8.92 billion

7%
additional revenue: $12.88 billion

Source: ITEP, March 2017
Corporate Income Tax

Increase the CIT from 5.25% to:

- 7% additional revenue: $503 million
- 9% additional revenue: $1.08 billion
- 11% additional revenue: $1.65 billion

Under the state constitution, the corporate tax rate cannot exceed the individual income tax rate by an 8:5 ratio.

Source: ITEP, March 2017
### Table 1. Service Tax Estimate Summary

<table>
<thead>
<tr>
<th>Service Tax System</th>
<th>Number of Additional Services Taxed</th>
<th>Broad Based Estimate</th>
<th>Refined Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tax Revenue ($ Millions)</td>
<td>FY'18</td>
</tr>
<tr>
<td>Iowa</td>
<td>81</td>
<td>$2,040.4</td>
<td>$2,351.6</td>
</tr>
<tr>
<td>Indiana</td>
<td>8</td>
<td>$378.5</td>
<td>$435.8</td>
</tr>
<tr>
<td>Kentucky</td>
<td>6</td>
<td>$221.5</td>
<td>$254.1</td>
</tr>
<tr>
<td>Missouri</td>
<td>11</td>
<td>$313.4</td>
<td>$361.4</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>14</td>
<td>$672.9</td>
<td>$773.3</td>
</tr>
</tbody>
</table>

Models assume a 5% tax rate, a 7/1/17 implementation date, and a 67%, 75%, and 90% compliance timeline. Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users. Source: CGFA
Impact of funding cuts... or payment delays
Resources

Voices for Illinois Children
www.voices4kids.org
(312) 456-0600