



Illinois on Autopilot, the Reality of FY2016

February 16, 2016

1. FAILURE TO PASS A GENERAL FUND BUDGET FOR FY2016 IS AN ABDICATION OF THE RESPONSIBILITY TO GOVERN

In both magnitude and meaning, state elected officials have no greater obligation than passing a General Fund budget into law. Consider magnitude first. Last fiscal year the General Fund budget provided for the expenditure of \$35 billion.¹ No question, that constitutes a sizeable expenditure of taxpayer money. It is also meaningful. While nearly \$11 billion was targeted for Hard Costs like debt service and other legally mandated payments, over \$24 billion was invested in current services across communities statewide.² In fact, over 90 percent of FY2015 General Fund expenditures on services covered education (35 percent), healthcare (30 percent), human services (21 percent), and public safety (7 percent).³ To be clear, it is those services which provide for the basic health and well-being of the citizenry, and go to the very heart of why we elect a Governor and General Assembly in the first place.

By failing to pass a General Fund budget for FY2016, elected officials are basically punting the following difficult, but fundamental, responsibilities to:

- **Make decisions about how to allocate scarce resources among the aforesaid four service priorities;**
- **Identify which of, and by how much, those services will be cut, despite their high priority, if the state's current woeful fiscal condition is not addressed; or**
- **Raise the tax revenue needed to fund those core services to the amounts needed to satisfy demographically driven demand.**

And make no mistake, Illinois' deteriorating fiscal condition compels that those politically difficult decisions be made. That is because the recent phase-down of the temporary tax increases implemented under the Taxpayer Accountability and Budget Stabilization Act, P.A. 96-1496, of 2011 (**TABSA**) means that there will be some \$5 billion less in recurring, annual revenue with which to build the budget in FY2016.⁴ That is a significant problem, because FY2015 ended with an accumulated deficit of **\$5.9 billion**.⁵ Taken together, that loss in recurring revenue, coupled with the extant accumulated deficit, mean that if lawmakers simply decided to maintain essential services in FY2016 at FY2015 levels, basic math results in the deficit ballooning to **\$10.9 billion**. This being Illinois, taxpayers have, to date, received something even less accountable than a maintenance budget for FY2016—no budget at all.

It is now nearly eight months into FY2016, and decision makers have yet to enact a General Fund budget for the fiscal year. So, what happens when elected officials abdicate their primary responsibility to govern by failing to pass a General Fund Budget? The short answer is nothing either good or remotely accountable. This is because even without a full budget, public taxpayer money is being spent for FY2016⁶—and cuts to core services are being made⁷—but for the most part it is happening without any elected official going on record as voting in favor of either the spending or the cuts.

Sure, there were budget proposals made for FY2016. Governor Rauner, for instance, proposed that the \$5 billion annual revenue loss created by the phase-down of income tax rates be dealt with through spending cuts, and proposed a General Fund budget for FY2016 that would spend \$4.6 billion less than the FY2015 budget.⁸ His

proposal, however, relied on some \$2 billion in unconstitutional cuts to pension benefits, and some \$871 million in cuts to healthcare, primarily Medicaid, that are unlikely to gain federal or state legislative approval.⁹

Meanwhile, Democratic lawmakers passed their own FY2016 General Fund budget, which contained \$4.5 billion more in spending than the Governor's proposal.¹⁰ Both budget plans, however, ultimately contained spending that exceeded estimated revenue and neither the Governor nor General Assembly put forward any revenue proposals to make up for the shortfall.¹¹

On June 25, 2015, the Governor vetoed nearly all of the budget bills that the Democrats passed. In a rare instance of bi-partisan accord on the budget, the Governor did sign into law the \$6.54 billion in appropriations for Early Childhood and K-12 Education that passed the General Assembly.¹² However, that still left no official FY2016 General Fund budget for human services, public safety, or higher education. Now, as February is halfway over, the state is meandering through eight months of FY2016 without a final budget for the year.

2. AUTOPILOT SPENDING IN FY2016

Even though Illinois does not have a final FY2016 General Fund budget, government services are still being provided, and, thus, spending continues to take place. This is because many aspects of the state's General Fund budget are legally mandated, hence no budget appropriation is required to authorize the spending. In fact, nearly **90 percent** of state spending is on "autopilot"—meaning most spending continues, and some cuts to core services will be made, even though no formal FY2016 budget is finalized.¹³

How is this possible? For starters, as noted previously, Governor Rauner did sign into law the Early Childhood and K-12 Education budget passed by Democrats in the General Assembly, which authorized an aggregate appropriation of \$6.54 billion in General Fund spending for public education.¹⁴ Next, there is another \$11.41 billion in spending for "Hard Costs" which are expenditures mandated by current law, that neither the General Assembly nor the Governor have the discretion to reduce or eliminate. For the Illinois General Fund, these "Hard Costs" are comprised of three items: (i) "Debt Service," which are payments due on the state's general obligation bonds; (ii) "Statutory Transfers Out," which are automatic transfers of revenue from the General Fund to other state funds that are required by existing law; and (iii) "Pension Contributions" required by law to be made to the state's five retirement systems.¹⁵

Another \$16.11 billion in current FY2016 expenditures is occurring, due to court orders and administrative decisions. The overwhelming majority of that current year spending—\$10.07 billion or 62.5 percent—is for healthcare and human services tied to consent decrees¹⁶ and related administrative decisions to continue paying all Medicaid providers, even though there is no official FY2016 budget.¹⁷ Another \$4.27 billion is being paid to cover the salaries of state workers. This is happening because even though there is no official budget for FY2016, state government has not shut down. Governor Rauner argued that since they were providing public services, state employees should continue to be paid despite the budget impasse.¹⁸ The courts agreed. On July 24, 2015, Illinois' 5th District Appellate Court ruled that all state workers must continue to be paid at the rates previously agreed to contractually by the state.¹⁹ The final \$1.77 billion is the estimated liability Illinois will incur in FY2016 for the State Employees Group Insurance Program, which provides health insurance to current and retired public employees.²⁰

It should be noted that while the Governor argued that state employees should be paid during the budget impasse, in September he ordered the state to stop paying healthcare claims for the 146,000 state workers, retirees, and their families that receive insurance through the self-insured plans.²¹ A lawsuit contesting the Governor's order to stop healthcare payments is currently pending before St. Clair County Circuit Judge Robert LeChien.²² CTBA is including the estimated General Fund liability for the Group Health Insurance Program because, while payments on the liability may have been temporarily halted, the state ultimately will have to pay the Group Health liability it is incurring under current law.²³

As a result of the aforementioned items, even without a final General Fund budget, the state is on track to spend \$34 billion in FY2016, as detailed in Figure 1.

**Figure 1
Autopilot FY2016 General Fund Spending**

Item	Amount (\$ Billions)	Action
Early and K-12 Education*	\$6.54	Signed into law
Debt Service	\$2.13	Hard Costs
Statutory Transfers	\$2.33	
Pension Contributions	\$6.95	
Healthcare and Human Services (including Medicaid)	\$10.07	Expenditures due to court orders and administrative decisions
Salaries for State Employees	\$4.27	
State Employees Group Insurance Program**	\$1.77	
Total	\$34.06	

Source: Illinois Senate Democrats FY2016 Budget Outlook from August 2015²⁴

*Excludes K-12 Appropriations from the Fund for the Advancement of Education

** CTBA analysis, estimated liability Illinois will incur in FY2016

One of the problems with the aforesaid autopilot spending for FY2016 involves revenue—or more specifically the lack thereof. In fact, the \$34 billion in General Fund spending that is occurring without lawmakers passing a formal budget **exceeds projected FY2016 revenue by \$1.9 billion.**²⁵ Hence, even without an approved FY2016 budget, the state is on pace to spend more money than it receives this year.

3. HOW THE ACCUMULATED DEFICIT WORSENS IF THERE IS NO FINAL FY2016 BUDGET

As CTBA previously estimated²⁶—and as the bond rating agencies recently confirmed, the General Fund ended FY2015 with an accumulated deficit of **\$5.9 billion.**²⁷ Since the failure to pass a budget will result in FY2016 expenditures exceeding FY2016 revenue by \$1.9 billion, the accumulated General Fund deficit will worsen to **\$7.8 billion** by the end of the year. Figure 2 shows the walk-down of the estimated **\$7.8 billion** FY2016 General Fund deficit under autopilot spending.

**Figure 2
FY2016 Autopilot General Fund Deficit Walk-Down
(\$ Billions)**

Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue	\$32.14	FY2016 Hard Costs	\$11.41	\$20.73
(ii)	Revenue After Hard Costs	\$20.73	Estimated Accumulated Deficit Carry Forward from FY2015	\$5.93	\$14.80
(iii)	Projected Net FY2016 General Fund Revenue Available for Services	\$14.80	Autopilot General Fund Service Appropriations	\$22.6	(\$7.80)
Projected Accumulated FY2016 General Fund Deficit		(\$7.80)			
Projected Deficit as a Percentage of General Fund Service Appropriations		-34.5%			

4. CUTS TO CORE SERVICES

While the autopilot spending would result in the accumulated General Fund deficit growing from **\$5.9 billion** at the end of FY2015 to **\$7.8 billion** by the end of FY2016, it is important to note that this growth in the deficit assumes there will be significant spending cuts made to several core services which are not mandated by either statute or court order, and hence require an appropriation passed by the General Assembly and signed into law by the Governor. Notably, the \$34 billion in autopilot spending—that will occur even if no General Fund budget is passed for FY2016—does not include: (i) some \$1.5 billion needed to cover human services that were provided in FY2015;²⁸ nor (ii) **any** appropriations for higher education.²⁹ If no FY2016 appropriation is enacted, higher education will be automatically zeroed-out and hence cut by **\$1.991 billion** from FY2015 levels.³⁰

This is one of the most troubling aspects of the current budget impasse—in FY2016, **\$3.5 billion of core services spending stands to be cut from FY2015 levels, with no elected official going on record to vote for those cuts, and indeed no public justification being offered for such cuts.** When one analyzes the services subject to these cuts, it is hard to imagine a legitimate policy rationale for making them. For instance, in FY2015, Illinois invested \$1.991 billion in community colleges, public universities, and the Monetary Assistant Program (MAP) that provides scholarships to low and middle income students so they can afford to go to college—all of which is completely zeroed-out in FY2016 under the autopilot budget. There are not many “good government” justifications for completely disinvesting in higher education—or denying the financial support 130,000 low-income students need to cover the cost of attending college.³¹

Meanwhile, the state’s most vulnerable citizens are being hurt by the impasse as well. This is because some \$1.5 billion of FY2015 investments in social services, ranging from after school programs to anti-violence initiatives, will not be funded in FY2016, because there is no specific appropriation passed into law authorizing it. Again, no elected official has gone on record voting for any of those cuts—they just happen, no hearing, no public debate, and no accountability.

To summarize, Illinois is currently on track to spend \$34 billion in General Funds in FY2016 without a formal budget, but it is projected to have only \$32.4 billion in FY2016 revenue. This means that without a final budget, the accumulated deficit will grow from the **\$5.9 billion** it was at the end of FY2015—to **\$7.8 billion** by the end of FY2016. And that assumes there will be no funding at all for higher education in FY2016—resulting in a year-to-year cut of **\$1.991 billion**, and another **\$1.5 billion** in year-to-year cuts to human services relied on by vulnerable populations.

In other words, despite \$3.491 billion in year-to-year spending cuts to essential public services; the state’s accumulated deficit grows significantly, just based on the difference between the cost of public services and other items like debt repayments Illinois is legally mandated to pay, and the revenue it is estimated to collect. These data points make it compellingly clear that the state cannot cut its way out of its fiscal problems—Illinois requires additional revenue to continue providing core services.

The state’s need for more revenue was best characterized by the Governor’s budget director, Tim Nuding, who stated last spring, “We’ve suspended good programs because we don’t have the revenue to support them.”³² To prevent more worthwhile programs from being suspended or permanently cut, the state must make the necessary reforms to collect adequate tax revenue.

For more information, contact the Center for Tax and Budget Accountability:
Ralph Martire, Executive Director, (312) 332-1481 or rmartire@ctbaonline.org
Bobby Otter, Budget Director, (312) 332-2151 or botter@ctbaonline.org
Amanda Kass, Research Director, (312) 332-1103 or akass@ctbaonline.org
www.ctbaonline.org

ENDNOTES

¹ CTBA, *Issue Brief: The Pending FY2016 Fiscal Cliff*, (Chicago: December 22, 2014).

http://ctbaonline.org/sites/default/files/reports/ctbaonline.org/file/ajax/field_report_file/und/form-G35MS30hOlzn9wPWjibXZbyY7x65ksfrRhHkEosdB-U/1421794164/IB_2015.12.22_CTBA%20The%20Pending%20FY2016%20Fiscal%20Cliff_FINAL.pdf

² CTBA, *Issue Brief: The Pending FY2016 Fiscal Cliff*, (Chicago: December 22, 2014).

³ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015). http://ctbaonline.org/sites/default/files/reports/www.ctbaonline.org/file/ajax/field_report_file/und/form-rcw2YfBgSY_B0_nrLddmgLOYMoflgUxcc2EOBe7fGek/1442350525/R_2015.07.30_CTBA%20It%20Is%20All%20About%20he%20Revenue.pdf

⁴ CTBA, *It Is All About Revenue: A Common Sense Solution for Illinois' Fiscal Solvency*, (Chicago: September 2015). http://ctbaonline.org/sites/default/files/reports/ctbaonline.org/node/375/edit/1441818352/IB_2015.09.09_CTBA%20It%20Is%20All%20About%20Revenue%20-%20Fiscal%20Solvency_FINAL.pdf

⁵ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

⁶ Kim Geiger and Monique Garcia, "Illinois' new normal: No budget, but money still flowing", Chicago Tribune, August 10, 2015. <http://www.chicagotribune.com/news/local/politics/ct-illinois-budget-new-normal-met-20150809-story.html>

⁷ Kim Geiger and Monique Garcia, "Illinois' new normal: No budget, but money still flowing", Chicago Tribune, August 10, 2015. <http://www.chicagotribune.com/news/local/politics/ct-illinois-budget-new-normal-met-20150809-story.html>

⁸ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

⁹ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

¹⁰ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

¹¹ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

¹² Monique Garcia and Kim Geiger, "Rauner OKs school spending plan amid Springfield budget fight", Chicago Tribune, June 24, 2015. <http://www.chicagotribune.com/ct-rauner-school-payments-20150624-story.html>; CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

¹³ Mark Peters and Kris Maher, "Budget Battles Rage On in Pennsylvania, Illinois", *The Wall Street Journal*, October 6, 2015, <http://www.wsj.com/articles/budget-battles-rage-on-in-pennsylvania-illinois-1444175466>; "Illinois's budget stand-off: Rauner v the rest", *The Economist*, November 14, 2015, <http://www.economist.com/news/united-states/21678234-even-usual-standards-prairie-state-illinois-mess-rauner-v-rest>; Kim Geiger, "Social service groups sound alarm on Illinois budget impasse", *The Chicago Tribune*, September 15, 2015, <http://www.chicagotribune.com/news/local/politics/ct-illinois-budget-social-services-met-20150915-story.html>.

¹⁴ PA 99-5. PA 99-5 authorizes \$6.54 billion General Fund and \$446 million Fund for the Advancement of Education spending for Early Childhood and K-12 Education for FY2016; this report only includes General Fund Spending. PA 99-5 also authorized the state's FY2016 contribution to the Teachers' Retirement System.

¹⁵ CTBA, *The Illinois State Budget and Tax Primer*, (Chicago: March, 2013). http://www.ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1384883277/R_2013.03_FINAL_FY2013%20CTBA%20IL%20Budget%20and%20Tax%20Primer.pdf

¹⁶ A consent decree is a legal settlement contained in a court order.

¹⁷ Relevant cases include: *Memisovski v Maram*, *Beeks v Bradley*, *Colbert v Rauner*, *Benson v Blaser*, *Williams v Rauner*, *Ligas v Norwood*, and *B.H. v Tate*. On July 10, 2015, the Department of Healthcare and Family Services (**DHFS**) notified

Medicaid providers that because there was no FY2016 budget the agency was discontinuing payments, and shortly thereafter the Sargent Shriver National Center on Poverty Law sued DHFS citing the existing consent decrees. On July 23, 2015, Federal Judge Joan Lefkow ruled that the state had to continue making payments for all health care services provided to Medicaid beneficiaries in Cook County. A few weeks after Judge Lefkow's ruling the Department of Healthcare and Family Services and the Department of Human Services announced payments to all Medicaid providers would continue (see: http://www.illinois.gov/hfs/info/media/Documents/Medicaid_Payments_to_Continue%20HFS%20PR%208-7.pdf).

¹⁸ Doug Finke, "Gov. Rauner tells state workers they will be paid even without budget agreement; Lisa Madigan says checks not certain", *State Journal-Register*, June 29, 2015, <http://www.sj-r.com/article/20150629/NEWS/150629510>

¹⁹ John O'Connor, "Illinois appellate court upholds order to pay state employees", July 24, 2015, *State Journal-Register*, <http://www.sj-r.com/article/20150724/NEWS/150729682>

²⁰ Total liability for healthcare provided by the State Employees' Group Health Insurance Program for FY2016 is estimated to be \$2.8034 billion (Commission on Government Forecasting and Accountability, *FY2016 Liabilities of the State Employees' Group Health Insurance Program*, p. 2). In FY2015, 63 percent of the Group Health liability was paid via the General Fund, and as such, CTBA estimates that General Fund spending for the 2016 liability will be \$1.77 billion.

²¹ Participants in the Group Health Program can choose between getting coverage through a plans that the state self-insures or through healthcare providers. <http://www.sj-r.com/article/20150914/NEWS/150919741>

²² Dean Olsen, "Unions sue Rauner to force payment of health care claims despite budget impasse", *State Journal-Register*, September 18, 2015, <http://www.sj-r.com/article/20150918/NEWS/150919460>

²³ The Governor has proposed cutting some of these health insurance costs for retirees, a course of action that is likely unconstitutional under *Kanerva v. Weems*, 2014 IL 115811.

²⁴ Available at <http://capitolfax.com/2015/08/14/todays-number-106/>

²⁵ FY2016 revenue is projected to be \$32.139 billion. COGFA, *State of Illinois Budget Summary: Fiscal Year 2016* (Springfield, IL: September 9, 2015), 27.

²⁶ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

²⁷ Edward Hampton and Nicholas Samuels, "Moody's downgrades Illinois' outstanding \$27B of GO bonds to Baa1; outlook negative", Moody's Investors Service, (New York: October 22, 2015). https://www.moodys.com/research/Moodys-downgrades-Illinois-outstanding-27B-of-GO-bonds-to-Baa1--PR_337211

²⁸ CTBA analysis of Illinois Senate Democrats FY2016 Budget Outlook from August 2015, available at <http://capitolfax.com/2015/08/14/todays-number-106/> and CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

²⁹ The Democrats' General Fund budget contained \$1.899 billion in appropriations for higher education, and the Governor's proposal had \$1.592 billion in appropriations for higher education.

³⁰ CTBA, *It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short* (Chicago: August 2015).

³¹ Tom Kacich, "Updated: Senate OKs MAP grant funding, 37-0", *The News-Gazette*, Wednesday, August 19, 2015. <http://www.news-gazette.com/news/local/2015-08-19/updated-senate-oks-map-grant-funding-37-0.html>

³² Monique Garcia, "Rauner team warns of more budget cuts", *Chicago Tribune*, April 21, 2015, <http://www.chicagotribune.com/news/local/politics/ct-bruce-rauner-budget-cuts-met-0422-20150421-story.html>