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ANALYSIS OF THE PROPOSED FY2015 ILLINOIS GENERAL FUND BUDGET

May 2014





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About CTBA

Founded in 2000, the Center for Tax and Budget Accountability is a non-profit, bi-partisan research and advocacy think tank committed to ensuring that tax, spending and economic policies are fair and just, and promote opportunities for everyone, regardless of economic or social status.

CTBA uses a data-focused, bipartisan approach to work in partnership with legislators, community groups and other organizations to help change both public policy and perceptions.

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TABLE OF ACRONYMS

BLS	Bureau of Labor Statistics
COGFA	Commission on Government Forecasting and Accountability
CPI	Consumer Price Index
CTBA	Center for Tax and Budget Accountability
FY	Fiscal Year
ECI	Employment Cost Index
GDP	Gross Domestic Product
GOMB	Governor's Office of Management and Budget
HJR	House-Joint Resolution
HR	House Resolution
IDOR	Illinois Department of Revenue
PA	Public Act
TABSA	Taxpayer Accountability and Budget Stabilization Act

1. INTRODUCTION

Why, on March 26, 2014, did Governor Pat Quinn make the unusual move of introducing two different proposals for the fiscal year (FY) 2015 General Fund budget? The answer is simple. The Governor proposed two very different spending plans because the state faces two very different potential fiscal realities in FY2015. That is because both of the temporary state income tax increases that became law under the Taxpayer Accountability and Budget Stabilization Act of 2011 (TABSA)¹ are scheduled to begin phasing down this coming fiscal year. Under TABSA, the personal income tax rate will decline from 5 percent to 3.75 percent, and the corporate income tax rate will drop from 7 percent to 5.25 percent on January 1, 2015, halfway through the fiscal year. Collectively, those rate reductions will cause the state to realize a loss of \$2 billion in revenue from FY2014 levels.²

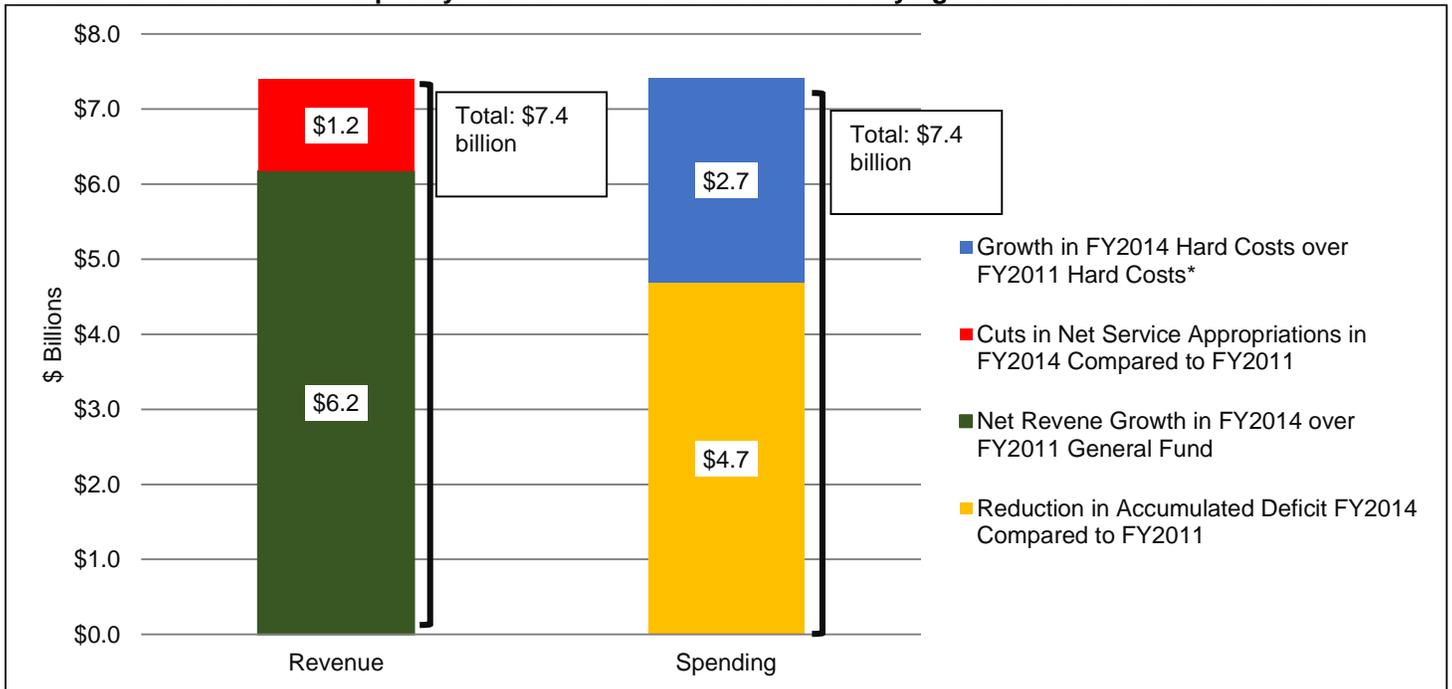
Given Illinois' already shaky fiscal condition, that loss of revenue will be impossible for the state's General Fund to absorb without significantly reducing FY2015 spending on core services from FY2014 levels. Here is why: before losing the revenue from the phase down of the temporary tax increases, Illinois already has an accumulated deficit of \$6.8 billion. That is roughly 27.8 percent of total FY2014 spending on the core services of education, healthcare, human services, and public safety, which collectively account for 90 percent of all FY2014 General Fund appropriations. Illinois has that significant accumulated deficit despite the new revenue generated by the temporary tax increases (personal and corporate) that passed under TABSA, and the \$4.7 billion in service cuts made over the last five years.³ So if the temporary tax increases are in fact allowed to phase out, the Governor will have no choice but to implement significant spending cuts.

That somber fiscal reality led the Governor to introduce two different spending proposals for FY2015. The first, which is the Governor's "Recommended Budget," is built on the assumption that rather than be allowed to phase down, the income tax rate increases passed under TABSA are either extended or made permanent. The second is a "Doomsday Budget" in which the Governor identifies the type of significant cuts—particularly funding for education and human services—that would have to be made if the temporary tax increases are allowed to phase down as currently provided in TABSA.

2. KEY FINDINGS

- The Commission on Government Forecasting and Accountability now estimates that the General Fund will realize \$1.2 billion more in revenue over the course of FY2014 than initially projected when the FY2014 budget was created last May.
- Despite that increase in revenue, the accumulated General Fund deficit that will carry-forward from FY2014 into FY2015 will be \$6.8 billion. That means 27.8 percent of all FY2014 spending on services will be deficit spending.
- The accumulated General Fund deficit is significant, however, it should be noted that contrary to public perception, decision makers have not used any of the new revenue generated by the temporary tax increases under TABSA to fund growth on current services.
- In fact, spending on current services was \$1.2 billion less in nominal dollars in FY2014 than in FY2011, when the tax increases under TABSA became effective.
- As the chart below shows, all net General Fund revenue growth over the FY2011-FY2014 sequence, including the new revenue generated from the temporary tax increases passed under TABSA together with the savings generated by the \$1.2 billion in spending cuts implemented over those fiscal years, was used to reduce the accumulation of back due bills in the state's General Fund by \$4.7 billion while covering the \$2.7 billion growth in "Hard Costs."
 - "Hard Costs" refer to expenditures that are required by current law that neither the General Assembly nor the Governor have the discretion to reduce or eliminate, and include three things: "Debt Service," which are payments made on general obligation bonds; "Statutory Transfers Out," which covers expenditures that, pursuant to state legislation, must be paid from the General Fund to other state funds; and "Pension Contributions" required by law to be made to the state's five retirement systems.

All Net Revenue from Temporary Tax Increases of 2011 Used for Paying Old Bills and Growth in Hard Costs



Sources: accumulated deficit and revenue see sources for Figure 6; appropriations and Hard Costs for 2011 from revised January 2011) GOMB, *Illinois State Budget: Fiscal Year FY2012* (Springfield, IL: Feb 16, 2011), CH 2-13; FY2014 from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014) and GOMB, "Operating Budget Detail," March 2014, *Excel file*.

- In fact, over the last five fiscal years (FY2009-FY2014) Hard Costs have more than tripled, increasing from \$3.2 billion to \$11.3 billion, accounting for all increased spending in the General Fund.
- The phase out of the temporary tax increases under TABSA that are scheduled to begin midway through FY2015 will result in the General Fund losing a total of \$2 billion in revenue from FY2014 levels.
- The accumulated General Fund deficit is currently \$6.8 billion. Without dramatic spending cuts to current services, the \$2 billion in lost revenue from the phase out of the temporary tax increases under TABSA would balloon the accumulated deficit to \$8.8 billion—or 36 percent of all spending on current services last year in FY2014.
- Since \$9 out of every \$10 spent on current services through the General Fund goes to Education (Early Childhood, K-12, and Higher Education-35 percent), Healthcare (29 percent), Human Services (20 percent), and Public Safety (7 percent) spending cuts necessitated by the phase out of the temporary tax increases would have to be made to one or more of those core services. Indeed, since the vast majority of state healthcare spending is for Medicaid services, which Illinois has little discretion to cut under federal law regarding matching grants, spending cuts would have to fall disproportionately on education and human services.
- This fiscal reality is reflected in the different spending plans identified in the Governor's Recommended Budget proposal for FY2015, and his Doomsday Budget proposal for FY2015. The Recommended Budget is built on the assumption that the temporary tax increases are made permanent, while the Doomsday Budget assumes that the temporary tax increases are phased out as scheduled, as shown in the following chart:

FY2015 Recommended and Doomsday Detail Spending Comparison (\$ Millions)⁴

Category	FY2015 Doomsday	FY2015 Recommended	\$ Difference	% Difference
Healthcare (including Medicaid)	\$7,251	\$7,271	(\$19)	-0.3%
Early Childhood Education	\$282	\$325	(\$43)	-13.2%
K-12 Education	\$5,772	\$6,653	(\$881)	-13.2%
Higher Education	\$1,743	\$2,044	(\$301)	-14.7%
Human Services	\$4,371	\$5,658	(\$1,287)	-22.7%
Public Safety	\$1,341	\$1,759	(\$419)	-23.8%
Group Health	\$1,476	\$1,476	\$0	0.0%
Other	\$1,009	\$1,270	(\$261)	-20.5%
Total Spending (Gross)	\$23,246	\$26,456	(\$3,210)	-12.1%

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*.

- If the temporary tax increases under TABSA are made permanent, FY2015 spending on core services will increase by \$1.4 billion in nominal dollars from FY2014, with the largest percentage increases going to Human Services (13.3 percent) and Early Childhood Education (8.3 percent).
- If the temporary tax increases under TABSA phase down as scheduled, overall spending on services in FY2015 will be cut by **\$1.5 billion** from FY2014 levels. Indeed, every service other than Healthcare and Group Health will be cut significantly from FY2014 levels with Public Safety cut by **18.6 percent**, Human Services cut by **12.5 percent**, Higher Education cut by **12.4 percent**, K-12 Education cut by **9.6 percent**, and Early Childhood Education cut by **6 percent**.
- When considered over the long term, under both the Recommended and Doomsday Budgets, spending on services is declining in real, inflation-adjusted terms. Depending on the inflation metric used, spending on services in FY2015 under the Recommended Budget would be either **18.6 percent** (using the Consumer Price Index) or **23.4 percent** (using the Employment Cost Index) less than FY2000. Under the Doomsday Budget, spending on services in FY2015 would be either **29 percent** (using the Consumer Price Index) or **33.2 percent** (using the Employment Cost Index) less than in FY2000.

3. FY2014 UPDATE

3.1 Revised Revenue Estimate

The revenue estimate for FY2014 has significantly changed since the General Assembly initially passed that budget in May 2013. The Commission on Government Forecasting and Accountability (**COGFA**) now estimates that FY2014 General Fund revenue will be \$1.2 billion more than the \$35.4 billion projected in House Resolution (**HR**) 389, which was used to craft the FY2014 budget. Figure 1 compares COGFA's new revenue estimate with HR 389.⁵

**Figure 1
FY2014 Revenue Estimates (\$ Millions)⁶**

	HR 389 May 2013	COGFA May 2014
Personal Income Tax	\$16,030	\$16,497
Corporate Income Tax	\$2,937	\$3,237
Sales Tax	\$7,348	\$7,673
Other Taxes, Fees and Interest Income	\$3,016	\$3,197
Transfers In (Primarily Lottery and Gaming)	\$2,115	\$2,207
Total State Sources	\$31,446	\$32,811
Federal Sources	\$4,000	\$3,850
Total General Fund Revenue	\$35,446	\$36,661

Source: HR 389 of the 98th Illinois General Assembly; and COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

Figure 1 shows that COGFA increased its FY2014 revenue estimate mainly because of additional growth in revenue from the personal income, corporate income, and sales taxes. Last year, there was an unexpected spike in personal income tax revenue because many taxpayers—anticipating the increase in federal income taxes scheduled for calendar year 2013—allocated income to 2012 that normally would have been realized in 2013. This maneuver not only helped those taxpayers pay less in federal income taxes, but also inflated Illinois state income tax revenue for FY2013, which includes six months of calendar year 2012 (i.e. July-December). COGFA characterized this surge in the state’s FY2013 income tax revenue as a one-time event and therefore did not include it in the base estimate of FY2014 revenue.⁷ Since calendar year 2013 is over, much of the uncertainty of the impact of individuals allocating 2013 income to 2012 is mitigated, which allowed COGFA to revise its personal income tax revenue estimate upwards. COGFA now projects greater sales and corporate income tax revenue primarily because of better than initially forecasted economic activity. However, COGFA did revise the estimate of FY2014 federal revenue downward, to reflect loss of federal matching funds based on Illinois’ current spending patterns.⁸

3.2 Proposed FY2014 Supplemental Appropriations

Governor Quinn is recommending a number of supplemental appropriations for FY2014 that would technically increase total spending for the year by \$773 million over the initial budget that passed last May.⁹ A “supplemental appropriation” is simply new spending for a fiscal year that is appropriated after a final budget for that year has passed. To become law, the Governor’s proposed supplemental appropriations for FY2014 have to be passed by both chambers of the General Assembly.

The bulk of those proposed supplemental appropriations, \$522 million or 67.5 percent, however, are not for new spending on services and instead are designated for paying down the backlog of bills incurred under the state’s Group Health Insurance Program. Another \$112 million would be used to cover unpaid wages owed to public employees. Although those back wages were incurred in FY2012 and FY2013, they were never included in any budget, and would therefore be categorized for budgetary purposes as “new” FY2014 spending, even though once again, the money does not go to any new spending on services. Figure 2 details the Governor’s proposed supplemental appropriations for FY2014.

Figure 2
Proposed FY2014 Supplemental Appropriations (\$ Millions)

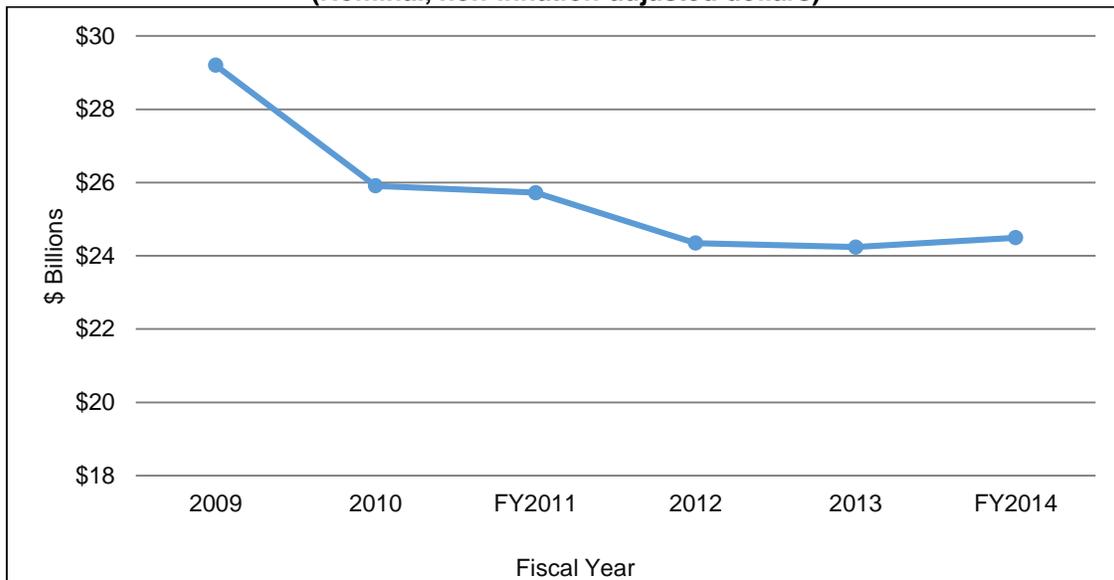
Budget Category	Amount
Unpaid Wages	\$112
Public Safety	\$46
Healthcare	\$25
Human Services	\$68
Group Health for Backlogged Bills	\$522
Total	\$773

Source: GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-68.

Although the proposed supplemental appropriations would technically increase service spending in FY2014 by \$251 million over what was initially passed last May, that increase is not material, nor does it do much to counter recent trends. First, as to materiality, as noted previously \$112 million—or 45 percent—of this “new” spending is not really new spending at all. Instead, it is merely accounting for unpaid wages incurred but not budgeted for in the FY2012 and FY2013 General Fund budgets. That means new spending on services in FY2014 would only be \$139 million, or roughly one-half of one percent of total General Fund appropriations for FY2014.

Such a meager increase in current service spending—if it passes—will not do much to counter the significant spending cuts implemented over the last five years. Indeed, as shown in Figure 3, spending on current services has been cut by \$4.7 billion since FY2009 in nominal dollars, without adjusting for inflation.

Figure 3
Change in Net General Fund Budgeted Appropriations for Current Services
(Nominal, non-inflation-adjusted dollars)



Sources: FY2009 appropriations GOMB, *Illinois State Budget: Fiscal Year FY2010* (Springfield, IL: March 18, 2009), CH 2-10; FY2010 appropriations GOMB, *Illinois State Budget: Fiscal Year FY2011* (Springfield, IL: March 10, 2010), CH 2-10; FY2011 appropriations (revised January 2011) GOMB, *Illinois State Budget: Fiscal Year FY2012* (Springfield, IL: Feb 16, 2011), CH 2-13; FY2012 appropriations GOMB, *Illinois State Budget: Fiscal Year FY2013* (Springfield, IL: Feb 22, 2012), CH 2-18; FY2013 and FY2014 from CTBA analysis of GOMB, “Operating Budget Detail,” March 2014, *Excel file*.

4. ALL NEW REVENUE FROM THE TEMPORARY TAX INCREASES UNDER TABSA HAS BEEN USED TO PAY PAST DUE BILLS AND COVER GROWTH IN HARD COSTS

4.1 The Accumulated General Fund Deficit

The proposed supplemental appropriations to the FY2014 budget would impact the state’s accumulated deficit in its General Fund in two ways. The money used to pay backlogged bills (\$522 million) would reduce the carry forward deficit remaining from FY2013, while the other amounts (\$251 million) that would technically constitute “new” spending in FY2014 increase the growth in the accumulated deficit.

Since overall the Governor proposes to use more of the supplemental appropriations to pay old bills from FY2013 than to fund new spending in FY2014, the net budgetary impact of the proposed supplemental appropriations would be a reduction in the accumulated General Fund deficit at the end of FY2014. Figure 4 compares the FY2014 anticipated deficit with and without the supplemental appropriations, using COGFA’s new revenue estimate for FY2014.

Figure 4
FY2014 Estimated Accumulated Deficit (\$ Billions)¹⁰

Category		New COGFA Revenue Estimate	New COGFA Revenue Estimate with FY2014 Supplementals
(i)	Projected FY2014 Revenue	\$36.66	\$36.66
(ii)	Projected FY2014 Hard Costs	\$11.31	\$11.31
(iii)	Projected Deficit Carry Forward from FY2013 ¹¹	(\$7.67)	(\$7.15)
(iv)	Projected Net FY2014 General Fund Revenue Available for Services	\$17.68	\$18.20
(v)	Projected Net General Fund Service Appropriations	\$24.49	\$24.74
(vi)	Estimated Minimum FY2014 General Fund Deficit	(\$6.82)	(\$6.55)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-27.83%	-26.45%

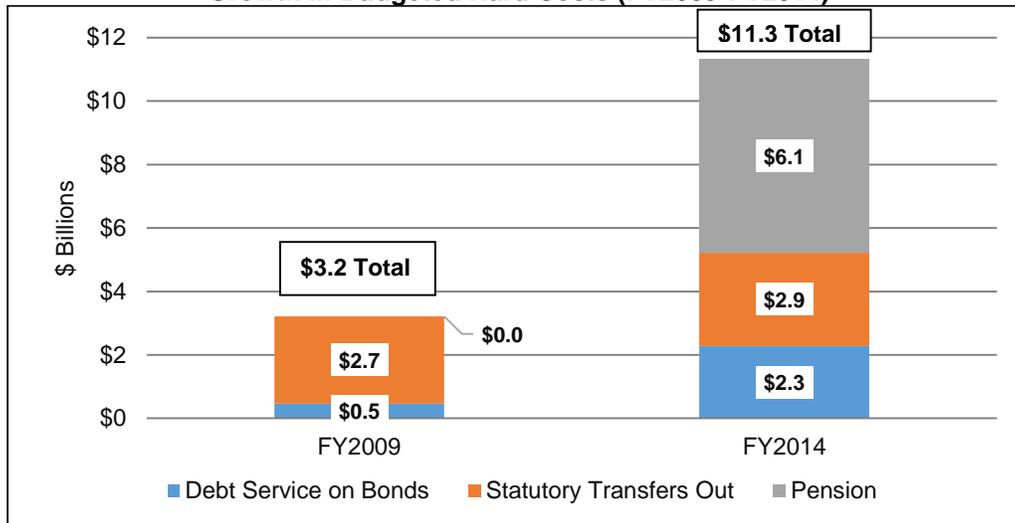
Source: Appropriations and hard costs for FY2014 from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014) and GOMB, "Operating Budget Detail," March 2014, *Excel file*.

Because the supplemental appropriations require legislative action, this report uses the FY2014 accumulated deficit estimate of **\$6.8 billion**, which incorporates COGFA's new revenue estimate, but does not include the proposed spending under the supplemental appropriations.

4.2 Uses of New Revenue from Temporary Tax Increases

While the accumulated General Fund deficit estimated for FY2014 of **\$6.8 billion** remains significant, it should be noted that, contrary to public perception, decision makers utilized all of the revenue generated from the temporary income tax increases under TABSA for two items. First, they used this new revenue to cover the significant growth in Hard Costs—non-discretionary payments owed to both bondholders and the five public pension systems, and statutory transfers out—that impacted the General Fund over the FY2009-FY2014 sequence. As shown in Figure 5, these Hard Costs more than tripled during that period, growing from \$3.2 billion in FY2009 to \$11.3 billion in FY2014.

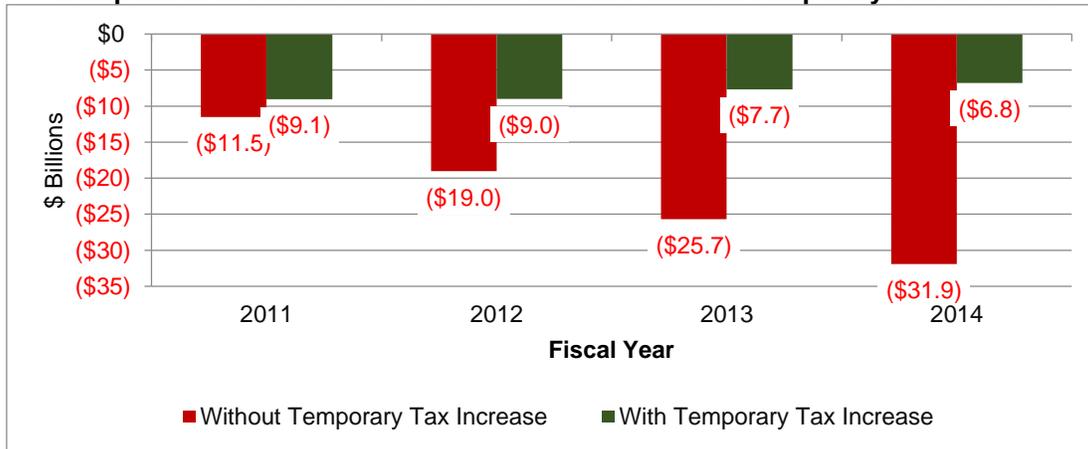
Figure 5
Growth in Budgeted Hard Costs (FY2009-FY2014)



Sources: FY2009 from GOMB, *Illinois State Budget: Fiscal Year FY2010* (Springfield, IL: March 18, 2009), CH 2-10; FY2014 from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014) and GOMB, "Operating Budget Detail," March 2014, *Excel file*.

Second, decision makers used the remaining new revenue from the temporary tax increases under TABSA to pay past due bills, thereby reducing Illinois' General Fund deficits over the FY2011-FY2014 sequence. Figure 6 compares what the accumulated annual deficits have been over the FY2011-FY2014 sequence with what those deficits would have been if the income tax rates had not been temporarily increased under TABSA. Note that without that increased revenue from the temporary tax increases, the state's accumulated deficit would have exceeded spending on current services in FY2013, and almost equaled the entire General Fund budget in FY2014.

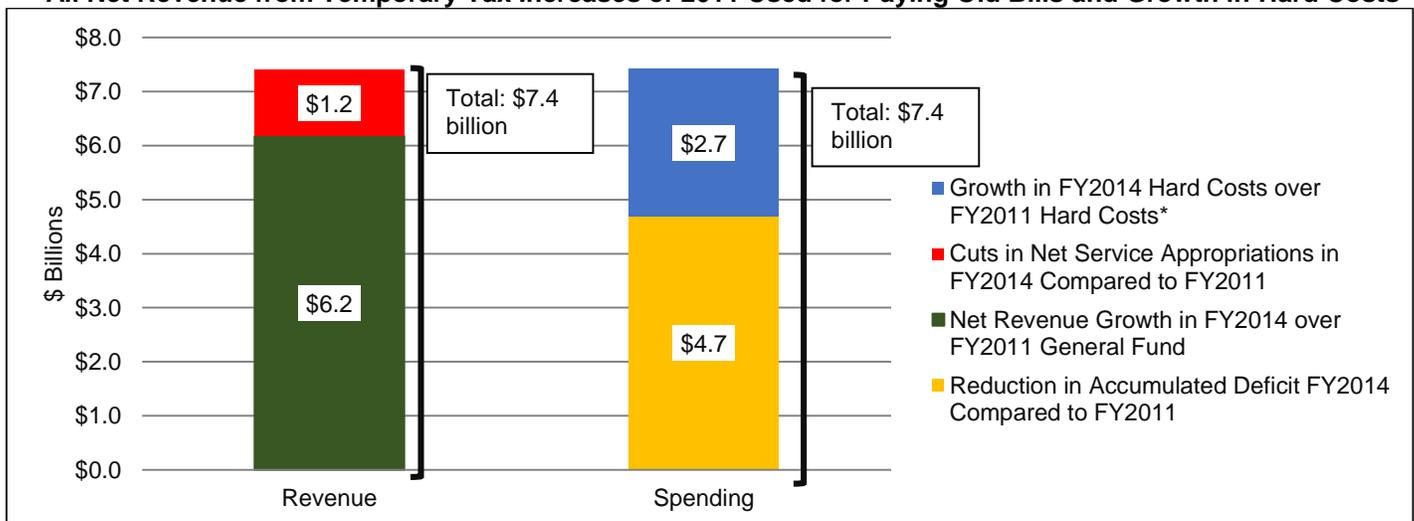
Figure 6
Comparison of Accumulated Deficits with and Without Temporary Tax Increase



Sources: FY2011 actual spending from GOMB, *Illinois State Budget: Fiscal Year* (Springfield, IL: Feb 22, 2012), CH 2-18; FY2012 actual spending from GOMB, *Illinois State Budget: Fiscal Year 2014* (Springfield, IL: March 6, 2013), CH 2-16; FY2013 actual spending from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2013), CH 2-16; actual revenue for FY2011-FY2013 from COGFA, *State of Illinois Budget Summary: Fiscal Year 2014* (Springfield, IL: August 1, 2013), 50; and estimated FY2014 revenue from COGFA, *Monthly Briefing for the Month Ended: April 2014* (Springfield, IL: April 2014).

The temporary tax increases under TABSA began generating new revenue for the state midway through FY2011. Figure 7 shows that all net annual revenue growth over the FY2011-FY2014 sequence—including the new revenue from the temporary increases under TABSA—has been used to cover payment of past due bills and growth in debt service. None of the net growth in revenue has gone to increased spending on services.

Figure 7
All Net Revenue from Temporary Tax Increases of 2011 Used for Paying Old Bills and Growth in Hard Costs



*Hard Costs are pension contributions, statutorily required legislative transfers, and debt service on general obligation bonds. Sources: accumulated deficit and revenue see sources for Figure 6; appropriations and Hard Costs for 2011 from revised January 2011) GOMB, *Illinois State Budget: Fiscal Year FY2012* (Springfield, IL: Feb 16, 2011), CH 2-13; FY2014 from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014) and GOMB, "Operating Budget Detail," March 2014, *Excel file*.

Indeed, as shown in Figure 7, in addition to the \$6.2 billion in net, new revenue over the FY2011-FY2014 sequence, the state still had to cut service spending by \$1.2 billion from FY2011 levels, just to reduce the total accumulation of back due bills by \$4.7 billion while covering the growth in Hard Costs over that sequence.

5. FY2015 REVENUE ESTIMATES

As previously mentioned, TABSA temporarily increased the state’s personal income tax rate (from 3 percent to 5 percent) and corporate income tax rate (from 4.8 percent to 7 percent). Those increased rates are by law scheduled to phase down to 3.75 percent for the personal income tax and 5.25 percent for the corporate income tax on January 1, 2015. Because the state’s fiscal year runs from each July 1 to the next succeeding June 30—for example, FY2015 begins on July 1, 2014 and ends on June 30, 2015—the lower income tax rates will only reduce revenue for six months of the state’s FY2015. The full effect of the scheduled phase down will not be felt until FY2016. Nonetheless, the reduced revenue for the General Fund anticipated in FY2015 will be significant, at least \$2 billion.¹²

For the past several years, the General Assembly, during its spring legislative session, has adopted a joint resolution that establishes the General Fund revenue estimate for the upcoming fiscal year. Lawmakers then use this revenue estimate to create the General Fund budget for the applicable year. The revenue estimate for FY2015 is detailed in House-Joint Resolution (HJR) 80.¹³ The House adopted HJR 80 on February 26, 2014, and the Senate adopted it on March 3, 2014. The revenue estimate in HJR 80 is identical to COGFA’s March 2014 estimate, and for simplicity, this report refers to the HJR 80 revenue estimate as the COGFA estimate.¹⁴ COGFA estimates General Fund revenue will be \$34.5 billion in FY2015 under current law.¹⁵

The Governor’s Office of Management and Budget (GOMB) also issues a revenue estimate, which the Governor uses to design his budget proposal. Primarily due to its greater income tax revenue projection, GOMB estimates total General Fund revenue will be \$34.9 billion under current law,¹⁶ which is \$400 million more than COGFA’s estimate. GOMB used different assumptions than COGFA concerning how tax filers will respond to the income tax rate reduction scheduled to occur on January 1, 2015 under TABSA resulting in GOMB’s greater income tax revenue projection.¹⁷ GOMB also has a more optimistic estimate of growth in corporate profits than COGFA.¹⁸ Historically, COGFA’s estimates have been more accurate than GOMB’s, and because of that, this report uses COGFA’s estimate for FY2015 General Fund revenue under current law.

Figure 8 compares COGFA’s FY2014 and FY2015 revenue estimates and highlights the revenue loss that will occur if the temporary income tax increases implemented under TABSA phase down. While COGFA estimates that state-source revenue in FY2015 will be \$2.6 billion less than FY2014, it estimates that federal sources will be \$423 million more, resulting in the overall FY2015 General Fund revenue estimate being \$2.2 billion less than FY2014 revenue.

Figure 8
FY2014 and FY2015 Revenue (with Income Tax Rate Phase Down) Estimates (\$ Millions)

	FY2014 COGFA (May Estimate)	FY2015 COGFA (March Estimate)	Difference
Personal Income Tax ¹⁹	\$16,497	\$14,649	(\$1,848)
Corporate Income Tax ²⁰	\$3,237	\$2,810	(\$427)
Sales Tax	\$7,673	\$7,842	\$169
Other Taxes, Fees and Interest Income	\$3,197	\$3,039	(\$158)
Transfers In (Primarily Lottery and Gaming)	\$2,207	\$1,882	(\$325)
Total State Sources	\$32,811	\$30,222	(\$2,589)
Federal Sources	\$3,850	\$4,273	\$423
Total General Fund Revenue	\$36,661	\$34,495	(\$2,166)

Sources: COGFA, *Monthly Briefing for the Month Ended: April 2014* (Springfield, IL: April 2014); and COGFA, *Monthly Briefing for the Month Ended February 2014* (Springfield, IL: February 2014), 10.

GOMB prepared a second revenue estimate for FY2015 that projects the impact of extending or making permanent the temporary income tax rate increases implemented under TABSA. Figure 9 compares estimated FY2015 General Fund revenue if the temporary income tax increases are made permanent and if they are phased out.

Figure 9
FY2015 Revenue Estimates (\$ Millions)

	FY2015 With Tax Rate Phase Down (COGFA Estimate)	FY2015 Making Increased Tax Rates Permanent (GOMB Estimate)	Difference
Personal Income Tax ²¹	\$14,649	\$16,646 ²²	\$1,997
Corporate Income Tax ²³	\$2,810	\$3,421	\$611
Sales Tax	\$7,842	\$7,847	\$5
Other Taxes, Fees and Interest Income	\$3,039	\$3,020	(\$19)
Transfers In (Primarily Lottery and Gaming)	\$1,882	\$1,935 ²⁴	\$53
Total State Sources	\$30,222	\$33,429	\$2,647
Federal Sources	\$4,273	\$4,496	\$223
Total General Fund Revenue	\$34,495	\$37,365	\$2,870

Sources: GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014); and COGFA, *Monthly Briefing for the Month Ended February 2014* (Springfield, IL: February 2014), 10.

Figure 10 compares estimated FY2015 General Fund revenue if the temporary tax increases are made permanent to estimated FY2014 General Fund revenue. As Figure 10 highlights, making the temporarily increased income tax rates implemented under TABSA permanent would mean FY2015 General Fund revenue would be an estimated \$704 million more than FY2014.

Figure 10
FY2014 and FY2015 Revenue (with Making Temporary Tax Increases Permanent) Estimates (\$ Millions)

	FY2014 COGFA (May Estimate)	FY2015 Making Increased Tax Rates Permanent	Difference
Personal Income Tax ²⁵	\$16,497	\$16,646 ²⁶	\$149
Corporate Income Tax ²⁷	\$3,237	\$3,421	\$184
Sales Tax	\$7,673	\$7,847	\$174
Other Taxes, Fees and Interest Income	\$3,197	\$3,020	(\$177)
Transfers In (Primarily Lottery and Gaming)	\$2,207	\$1,935 ²⁸	(\$272)
Total State Sources	\$32,811	\$33,429	\$58
Federal Sources	\$3,850	\$4,496	\$646
Total General Fund Revenue	\$36,661	\$37,365	\$704

Sources: GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014); and COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

6. THE FY2015 GENERAL FUND BUDGET PROPOSALS

6.1 The Fiscal Reality of Phasing Out the Temporary Tax Increase under TABSA

As shown in Section 4 of this report, none of the new revenue generated by the temporary tax increases under TABSA has been used to support new spending on services. Indeed, all net General Fund revenue growth since the temporary tax increases became effective during FY2011 has been used to pay \$4.7 billion in old bills and \$2.7 billion growth in Hard Costs. Net spending on services is actually \$1.2 billion less in FY2014 than it was in FY2011. Given that, despite the aforesaid spending cuts and payment of past due bills, Illinois nonetheless has an accumulated deficit of \$6.8 billion, there is no way the state's fiscal system as currently constructed can absorb the \$2 billion net loss in FY2015 revenue that the scheduled phase out of the temporary tax increases under TABSA will cause. This reality is reflected in the differences between the Recommended and Doomsday Budget proposals

6.2 Aggregate Appropriations by Type under the Recommended and Doomsday Budgets

The Governor's respective Recommended and Doomsday FY2015 General Fund Budgets are detailed by major spending category in Figure 11. Note that total General Fund spending on current services under the Doomsday Budget would be **\$2.8 billion** less than in the Recommended Budget.

Figure 11
Governor's FY2015 Proposed General Fund Appropriations (\$ Millions)

Category	Recommended Budget	Doomsday Budget	Difference
(i) Total General Fund Appropriations (Gross)	\$39,147	\$34,812	(\$4,335)
(ii) Total Hard Costs	\$12,691	\$11,566	(\$1,125)
• Debt Service (Pension & Capital Bonds)	\$2,214	\$2,214	\$0
• Statutory Transfers Out Under Current Law	\$2,991	\$2,991	\$0
• New Statutory Transfer Out for Governor's Proposed Property Tax Refund	\$1,275	\$0	(\$1,275)
• Pension Contributions	\$6,211	\$6,361	\$150
(iii) Gross General Fund Current Service Appropriations (Education, healthcare, human service, and public safety account for 90 percent of this line)	\$26,456	\$23,246	(\$3,210)
(iv) "Unspent Appropriations"	(\$602)	(\$234)	\$368
(v) Net General Fund Service Appropriations	\$25,854	\$23,012	(\$2,842)

Source: GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014) and GOMB, "Operating Budget Detail," March 2014, *Excel file*.

"Hard Costs" refer to expenditures that are required by current law that neither the General Assembly nor the Governor have the discretion to reduce or eliminate. The Hard Cost line shown in Figure 11 includes three things: "Debt Service", which are payments made on general obligation bonds; "Statutory Transfers Out", which covers expenditures that, pursuant to state legislation, must be paid from the General Fund to other state funds; and "Pension Contributions" required by law to be made to the state's five retirement systems.

The Hard Cost line in the FY2015 Recommended Budget is unique because it includes the cost of the Governor's proposal to provide every homeowner in the state with a \$500 refund to reduce property taxes and partially offset the impact of making the temporary income tax rate increases under TABSA permanent (the "**Homeowner Refund Proposal**"). Under current law Illinois taxpayers get a credit against their state income taxes in an amount equal to 5 percent of property taxes paid.²⁹ The Governor is proposing to eliminate that credit and replace it with a flat, \$500 refund. In FY2012, the existing property tax credit cost the state \$555 million in forgone income tax revenue.³⁰ The flat \$500 refund provided under the Homeowner Refund Proposal would cost the state at least \$700 million more than the current 5 percent credit.³¹ Thus, the total cost of the Homeowner Refund Proposal is an estimated \$1.3 billion. Obviously, there will be no revenue to pay for the Governor's Homeowner Refund Proposal if the temporary income tax increases are allowed to phase down, so that proposal is not included in the Hard Cost line of the Doomsday Budget.

There are at least two reasons to question the Governor's Homeowner Refund Proposal. First and foremost, it is not the best use of scarce General Fund revenue at this moment in time. As shown above in Figure 3, the state has been implementing significant cuts—totaling \$4.7 billion—to its funding of core services over the last five years. Extending or making permanent the temporary tax increases does not create any new revenue for the General Fund—it merely maintains extant levels. Given that existing Hard Costs are scheduled to increase over time, and the scope of the cuts already made to services, now is not a good time to divert some \$700 million of existing General Fund resources to a new tax relief program.

Second, from a tax policy standpoint, the design of the Homeowner Refund Proposal is not desirable. Governor Quinn is proposing to eliminate the existing property tax credit and provide every homeowner with a \$500 refund instead. It would mean taxpayers would receive a check in the mail, similar to refunds given when taxpayers overpay their income taxes. While providing taxpayers with increased property tax relief is a laudable goal given Illinois high property taxes, doing so in the form of a refund is not optimal because that refund constitutes “other income” and under federal law is therefore subject to the federal income tax.

Another Hard Cost difference is that under the Recommended Budget the Pension Contribution would be \$150 more than under the Domsday Budget, as shown in Figure 11. The Hard Cost line for Pension Contributions in Figure 11 includes the vast majority of payments to the five state funded pension systems: the Teachers’ Retirement System, State Universities Retirement System, State Employees’ Retirement System, the General Assembly Retirement System, and the Judges’ Retirement System.³² That line item also includes payments made for two retiree healthcare programs, the Teachers Retirement Insurance Program and the College Insurance Program, and a statutorily required contribution to the Chicago Teachers’ Pension Fund. Figure 12 compares pension contributions in the Recommended and Domsday Budgets.

Figure 12
FY2015 Pension Contribution Comparison (\$ Millions)

	Recommended	Domsday
State Pension Systems	\$6,093.5	\$6,243.5
Chicago Teachers’ Pension Fund	\$11.9	\$11.9
Retiree Healthcare	\$105.4	\$105.4
Total	\$6,210.8	\$6,360.8

Source: CTBA analysis of GOMB, “Operating Budget Detail,” March 2014, *Excel file*.

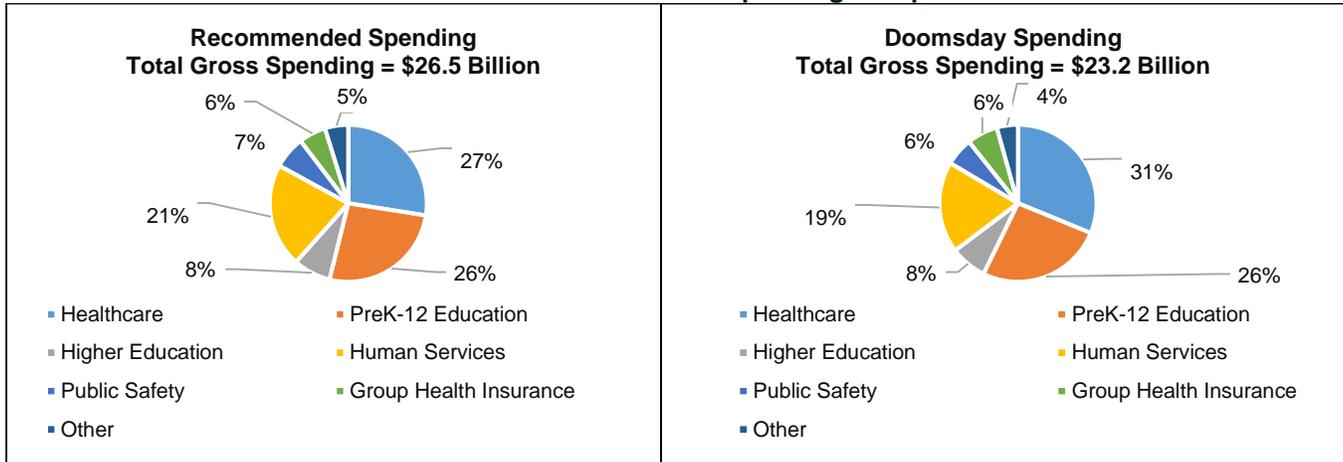
As Figure 12 shows, in the Domsday Budget the contribution to the state pension systems is \$150 million more than in the Recommended Budget. This difference exists because for some, unexplained reason, in the Recommended Budget that \$150 million would be paid from a non-General Fund source, whereas in the Domsday Budget it is paid from the General Fund.³³ It is important to note that the state pension system contributions under both the Recommended and Domsday Budgets were determined using the pension funding law that pertained prior to the changes made by PA 98-599, which has been challenged on constitutional grounds, and has had its implementation stayed by the court hearing the case.³⁴

6.3 Discretionary Spending Priorities

Since Hard Costs are mandatory spending frequently incurred by prior administrations or simply required by law, they do not provide much insight into current legislative or gubernatorial policy priorities. Discretionary spending, on the other hand does.

As shown in Figure 13, both the Recommended and Domsday Budgets continue to prioritize funding the core services of Education, Healthcare, Human Services, and Public Safety that the state has historically devoted its General Fund to providing. Combined, these core service areas account for approximately \$9 out of every \$10 in the FY2015 proposed budgets.

Figure 13
FY2015 General Fund Service Spending Comparison



Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*.

Spending on current services in the Doomsday Budget is over **\$3 billion** less than in the Recommended Budget. Figure 14 provides a comparison of service spending by each major category under the two budget proposals. A word of caution about the proposed appropriations for public services in FY2015. The totals shown in Figure 14 are the maximum potential expenditures for services. Actual spending on core services in FY2015 will be less irrespective of which budget passes, because, as highlighted in line (iv) of Figure 11, both the Recommended and Doomsday Budgets assume a portion of total appropriations will remain unspent.

Figure 14
FY2015 Recommended and Doomsday Detail Spending Comparison (\$ Millions)³⁵

Category	FY2015 Doomsday	FY2015 Recommended	\$ Difference	% Difference
Healthcare (including Medicaid)	\$7,251	\$7,271	(\$19)	-0.3%
Early Childhood Education	\$282	\$325	(\$43)	-13.2%
K-12 Education	\$5,772	\$6,653	(\$881)	-13.2%
Higher Education	\$1,743	\$2,044	(\$301)	-14.7%
Human Services	\$4,371	\$5,658	(\$1,287)	-22.7%
Public Safety	\$1,341	\$1,759	(\$419)	-23.8%
Group Health	\$1,476	\$1,476	\$0	0.0%
Other	\$1,009	\$1,270	(\$261)	-20.5%
Total Spending (Gross)	\$23,246	\$26,456	(\$3,210)	-12.1%

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*.

As Figure 14 shows, with the exceptions of Group Health and Healthcare, spending on services under the Doomsday Budget is significantly less than under the Recommended Budget. Healthcare under the Recommended and Doomsday Budgets is roughly equal because the bulk of the state's healthcare spending is for Medicaid and the federal government reimburses the state for much of that spending.³⁶ Because of the federal match, any cut to the state's Medicaid spending would result in a corresponding near dollar-for-dollar loss of revenue from the federal government.³⁷ Moreover, any proposed reductions in Medicaid spending by a state that are to be achieved through benefit or eligibility cuts have to be approved by the federal government in advance.³⁸ Finally, Illinois chose to participate in the expansion of Medicaid under the Affordable Care Act.³⁹ For those reasons, Healthcare spending remains relatively constant under both FY2015 budget proposals.

Group Health is the same under both budgets because that category covers the health insurance costs the state incurs for current employees and retirees who get their healthcare through the State Employees' Group Insurance Program. The cost for that program is split between those with the healthcare coverage (current employees and retirees) and the state. This is part of a negotiated contract and is therefore not discretionary.

6.4 Nominal Dollar Comparison of FY2015 Budget Proposals to FY2014

Comparing both the FY2015 Recommended and Doomsday Budgets to FY2014 highlights the fiscal impact of allowing the temporary tax increases to phase down as scheduled under TABSA. Under the Recommended Budget, net spending on services would be \$1.4 billion more in FY2015 than FY2014 in nominal dollars, a 5.6 percent year-to-year increase. While all major categories would see a nominal dollar increase, Human Services would realize the greatest year-to-year increase—13.3 percent or \$662 million. Figure 15 provides a detailed comparison of the FY2015 Recommended Budget with the final FY2014 General Fund budget.

Figure 15
FY2015 Recommended General Fund Budget Compared to FY2014 Enacted (\$ Millions)⁴⁰

Category	FY2014	FY2015 Recommended	\$ Difference (nominal)	% Change (nominal)
Healthcare	\$7,171	\$7,271	\$99	1.4%
Early Childhood Education	\$300	\$325	\$25	8.3%
K-12 Education	\$6,387	\$6,653	\$266	4.2%
Higher Education	\$1,991	\$2,044	\$53	2.6%
Human Services	\$4,996	\$5,658	\$662	13.3%
Public Safety	\$1,648	\$1,759	\$111	6.7%
Group Health	\$1,346	\$1,476	\$129	9.6%
Other	\$1,187	\$1,270	\$83	7.0%
Total (gross)	\$25,027	\$26,456	\$1,429	5.7%
Unspent Appropriations	(\$533)	(\$602)	N/A	N/A
Total (net)	\$24,494	\$25,854	\$1,360	5.6%

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*, and unspent appropriations from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-22.

Things are decidedly different under the proposed Doomsday Budget for FY2015. Under the Doomsday Budget, net spending on services would be nearly \$1.5 billion less in nominal, non-inflation-adjusted dollars than it was in the FY2014 General Fund budget, a 6 percent cut. The areas that would realize the greatest year-to-year cuts under the Doomsday Budget would be Public Safety (18.6 percent), Human Services (12.5 percent), Higher Education (12.4 Percent), and K-12 Education (9.6 percent) as shown in Figure 16.

Figure 16
FY2015 Doomsday General Fund Budget Compared to FY2014 Enacted (\$ Millions)⁴¹

Category	FY2014	FY2015 Doomsday	\$ Difference (nominal)	% Change (nominal)
Healthcare	\$7,171	\$7,251	\$80	1.1%
Early Childhood Education	\$300	\$282	(\$18)	-6.0%
K-12 Education	\$6,387	\$5,772	(\$615)	-9.6%
Higher Education	\$1,991	\$1,743	(\$248)	-12.4%
Human Services	\$4,996	\$4,371	(\$624)	-12.5%
Public Safety	\$1,648	\$1,341	(\$307)	-18.6%
Group Health	\$1,346	\$1,476	\$129	9.6%
Other	\$1,187	\$1,009	(\$178)	-15.0%
Total (gross)	\$25,027	\$23,246	(\$1,781)	-7.1%
Unspent Appropriations	(\$533)	(\$234)	N/A	N/A
Total (net)	\$24,494	\$23,012	(\$1,482)	-6.0%

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file* and unspent appropriations from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-22.

6.5 Inflation-Adjust Budget Comparisons

Of course, a nominal dollar comparison does not provide an accurate barometer of whether spending on services is actually growing, staying flat or declining. That is because nominal dollar comparisons do not adjust for either inflation or population growth, both of which make it more expensive to provide the same level of services from one fiscal year into the next.

There are two major inflation metrics published by the Federal Bureau of Labor Statistics (**BLS**) that are used to determine how much the cost of products and services increase over time. The first is the Consumer Price Index (**CPI**). The CPI is a comprehensive inflation measure that broadly covers the change in price for all goods and services in the economy. The CPI covers changes in the cost of everything from pop tarts and hair care products to bowling. However, state government does not purchase the vast majority of items included in the CPI. So while the CPI is an excellent metric for evaluating the economy as a whole, it is not the best choice for evaluating public sector spending.

The second major inflation metric is the Employment Cost Index (**ECI**). As the name implies, the ECI covers a narrower number of items than the CPI and focuses on changes in the cost of paying compensation to workers over time. Public services are very labor intensive, and the vast majority of public sector expenditures made through the Illinois General Fund—80 to 90 percent—cover the compensation paid to the healthcare workers, teachers, correctional officers, social workers and other civil servants who provide the public services consumed in communities across the state. Hence, the ECI is the more accurate metric for analyzing the inflationary cost increases that impact public sector expenditures on services.

Calculating inflation adjustments over time is relatively simple. Say expenditures on public safety were \$100 in year one, and the inflation rate for that year was five percent. In year two, the appropriation for public safety would have to be \$105 to purchase the same level of services provided in year one, in what is referred to as “real”—i.e. inflation-adjusted terms. If in year two public safety received an appropriation of \$103, then despite the \$3 increase in nominal appropriations, in real, inflation-adjusted terms, spending was actually cut by \$2.

Figure 17 shows how the Governor’s FY2015 Recommended Budget compares to the actual FY2014 General Fund budget, in real, inflation-adjusted dollars. As Figure 17 shows, total appropriations in FY2015 under the Governor’s Recommended Budget would be \$779 million more than FY2014 spending in real, inflation adjusted dollars. With the exception of Healthcare, all core services would realize real increases, after adjusting for inflation.

Figure 17
Illinois General Fund Spending
FY2015 Recommended Budget Compared to FY2014 Enacted,
And FY2014 Adjusted for Inflation and Population Growth (\$ Millions)

Category	FY2014	FY2015 Recommended	FY2014, Enacted Adj for Infl (ECI) and Pop Growth	\$ Diff FY2015 –FY2014 (Inflation Adjusted)	% Change (Inflation Adjusted)
Healthcare	\$7,171	\$7,271	\$7,438	(\$167)	-2.2%
Early Childhood Education	\$300	\$325	\$307	\$18	6.0%
K-12 Education	\$6,387	\$6,653	\$6,524	\$129	2.0%
Higher Education	\$1,991	\$2,044	\$2,034	\$10	0.5%
Human Services	\$4,996	\$5,658	\$5,103	\$555	10.9%
Public Safety	\$1,648	\$1,759	\$1,684	\$76	4.5%
Group Health	\$1,346	\$1,476	\$1,375	\$100	7.3%
Other	\$1,187	\$1,270	\$1,213	\$57	4.7%
Gross General Fund Service Appropriations	\$25,027	\$26,456	\$25,677	\$779	3%

Sources: FY2013 unadjusted appropriations and FY2014 CTBA analysis of GOMB, “Operating Budget Detail,” March 2014, *Excel file*. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) inflation growth from FY2014 to FY2015 estimated using average year-to-year growth rate averages over the 2009-2013 sequence (1.85 percent for ECI and 3.41 percent for Midwest Medical Care CPI); and historic year-to-year population growth of 0.3 percent.

The increases in spending in core services under the FY2015 Recommended Budget would begin to reverse the trend of spending cuts that has occurred over last five years. Not surprisingly, however, the Doomsday Budget would continue the

trend of cutting spending on current services, as detailed in Figure 18. Compared to FY2014, gross FY2015 spending under the Doomsday Budget would be \$2.4 billion less in inflation-adjusted dollars.

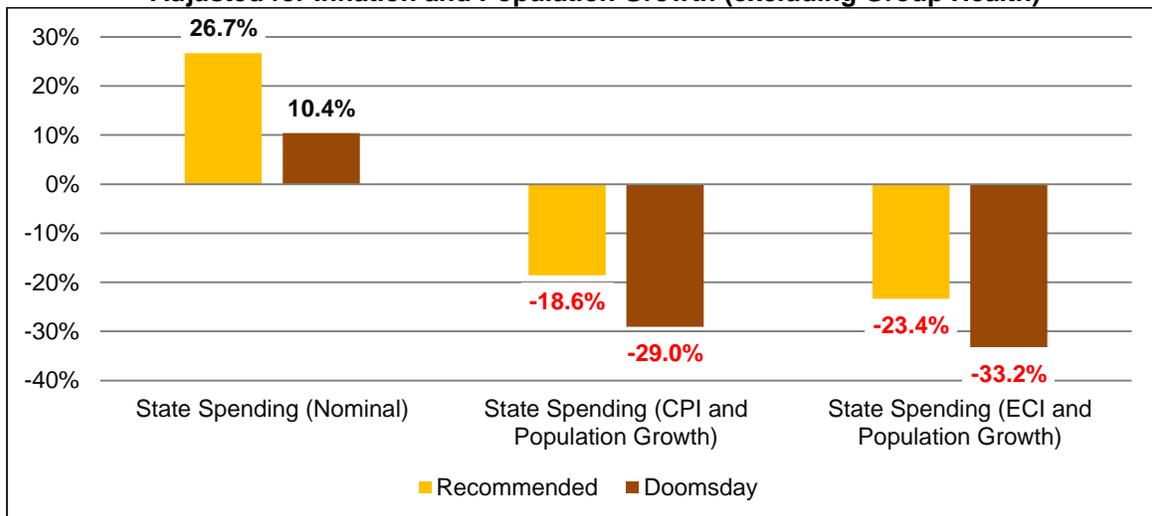
Figure 18
Illinois General Fund Spending
FY2015 Doomsday Budget Compared to FY2014 Enacted,
And FY2014 Adjusted for Inflation and Population Growth (\$ Millions)

Category	FY2014	FY2015 Doomsday	FY2014, Enacted Adj for Infl (ECI) and Pop Growth	\$ Diff FY2015 -FY2014 (Inflation Adjusted)	% Change (Inflation Adjusted)
Healthcare	\$7,171	\$7,251	\$7,438	(\$186)	-2.5%
Early Childhood Education	\$300	\$282	\$307	(\$25)	-8.0%
K-12 Education	\$6,387	\$5,772	\$6,524	(\$752)	-11.5%
Higher Education	\$1,991	\$1,743	\$2,034	(\$291)	-14.3%
Human Services	\$4,996	\$4,371	\$5,103	(\$732)	-14.3%
Public Safety	\$1,648	\$1,341	\$1,684	(\$343)	-20.4%
Group Health	\$1,346	\$1,476	\$1,375	\$100	7.3%
Other	\$1,187	\$1,009	\$1,213	(\$203)	-16.8%
Gross General Fund Service Appropriations	\$25,027	\$23,246	\$25,677	(\$2,431)	-9.5%

Sources: FY2013 unadjusted appropriations and FY2014 CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) inflation growth from FY2014 to FY2015 estimated using average year-to-year growth rate averages over the 2009-2013 sequence (1.85 percent for ECI and 3.41 percent for Midwest Medical Care CPI); and historic year-to-year population growth of 0.3 percent.

When considered over the long-term, under both the Recommended and Doomsday Budgets, spending on services is declining in real terms, after adjusting for inflation. Figure 19, which compares the FY2015 General Fund budget proposals to the final enacted FY2000 budget, shows that irrespective of the inflation metric used, CPI or ECI, or which budget is ultimately passed, overall General Fund spending on services will be significantly less in FY2015 than it was in FY2000.

Figure 19
FY2015 Proposed General Fund Services
Appropriations Relative to FY2000, in Nominal Dollars and
Adjusted for Inflation and Population Growth (excluding Group Health)



Sources: FY2015 appropriations CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*. Appropriations for FY2000 from Illinois Economic and Fiscal Commission, *FY2002 Budget Summary* (Springfield, IL: September 2001) and Illinois Economic and Fiscal Commission, *Fiscal Year 2001 Report on the Liabilities of the State Employees' Group Insurance Program* (Springfield, IL: March 2000), 2. FY2000 appropriations adjusted using ECI and Midwest CPI, and Midwest Medical Care CPI (for Healthcare), and historic year-to-year population growth.

7. THE PROJECTED FY2015 OPERATING AND ONGOING STRUCTURAL DEFICITS

7.1 The General Fund FY2015 Deficits

The size of the FY2015 accumulated deficit varies somewhat depending on which budget ultimately passes. Figure 20 shows that the FY2015 deficit would be an estimated **\$7.4** billion under the Governor's Recommended Budget, even if the temporary income tax rate increases were made permanent.

Figure 20
FY2015 Recommend Budget Estimated Deficit (\$ Billions)

Category		GOMB Recommended Revenue
(i)	Projected FY2015 Revenue*	\$37.93 ⁴²
(ii)	Projected FY2015 Hard Costs	\$12.69
(iii)	Projected Deficit Carry Forward from FY2014	(\$6.82)
(iv)	Projected Net FY2015 General Fund Revenue Available for Services	\$18.42
(v)	Projected Net General Fund Service Appropriations	\$25.85
(vi)	Estimated Minimum FY2015 General Fund Deficit	(\$7.44)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-28.77%

Source: CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file* and GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014).

As shown in Figure 21, under the Doomsday Budget, the FY2015 accumulated deficit would be **\$6.9** billion. The cost of paying for the Governor's Homeowner Refund Proposal is why there would be a greater deficit under the FY2015 Recommended Budget than the Doomsday Budget.

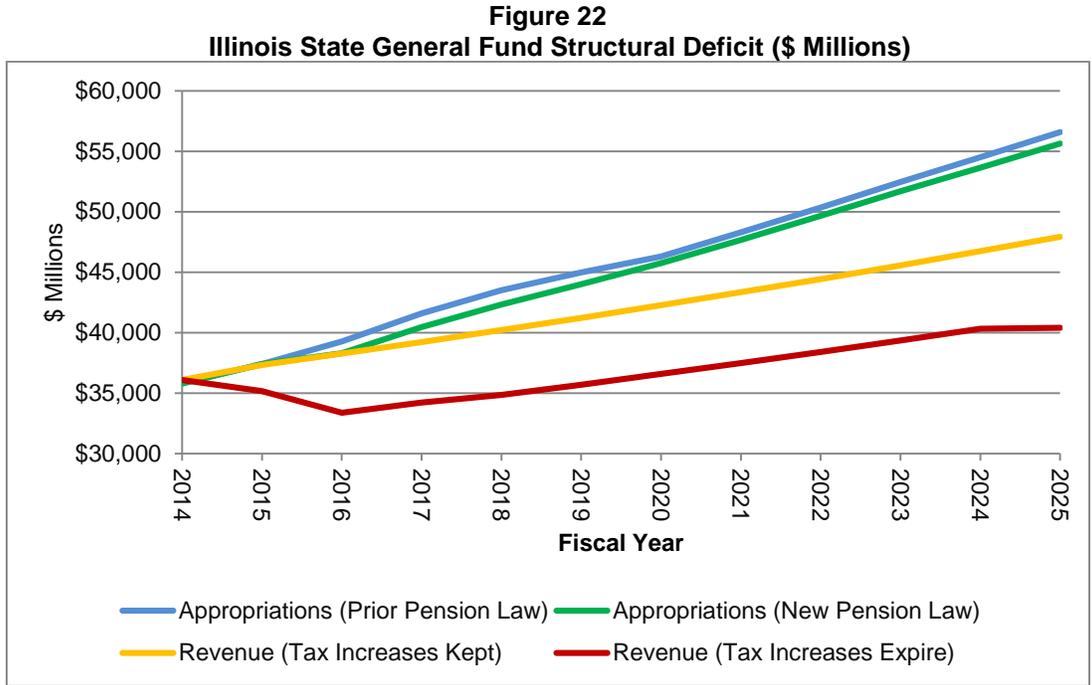
Figure 21
FY2015 Doomsday Budget Estimated Deficit (\$ Billions)

Category		COGFA Revenue
(i)	Projected FY2015 Revenue	\$34.50
(ii)	Projected FY2015 Hard Costs	\$11.57
(iii)	Projected Deficit Carry Forward from FY2014	(\$6.82)
(iv)	Projected Net FY2015 General Fund Revenue Available for Services	\$16.11
(v)	Projected Net General Fund Service Appropriations	\$23.01
(vi)	Estimated Minimum FY2015 General Fund Deficit	(\$6.90)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-29.99%

Source: CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file* and GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014).

7.2 Illinois' Structural Deficit

For over a decade CTBA has pointed out that the Illinois tax system consistently does not generate enough General Fund revenue to maintain delivery of the same level of public services from year-to-year. The ongoing mismatch in the state's General Fund between the lower rates of growth for revenue than the pace of increase in the cost of maintaining service levels and continuing extant debt service is commonly called a "structural deficit." Figure 22 is a graphic depiction of the structural deficit in the Illinois General Fund.



The structural deficit depicted above assumes that the state maintains constant spending on services in real terms from FY2014 through FY2025, meaning that no programs are expanded or added, and that revenue will grow at historic annual rates.⁴³ Spending is projected two ways, both using the reduced pension contributions that pertain under the new pension funding law (in green) which is currently being contested, has had its implementation stayed, and may be found unconstitutional, and under the prior pension funding law that would pertain if PA 98-599 is unconstitutional (in blue).⁴⁴ Moreover, it projects how revenue growth would develop both if there is and if there is not a phase out of the temporary tax increases under TABSA, and if the current income tax rates (corporate and individual) were made permanent (in yellow).⁴⁵ The revenue declines that occur in FY2015 and FY2025 in the red line project what will happen to revenue growth if the phase out of the temporary income tax increases scheduled under TABSA occur. Note that, even if the temporary tax increases under TABSA are made permanent, the state's current fiscal system cannot continue to support the same level of public services delivered today into the future.

APPENDIX A: ENDNOTES

¹ Public Act 96-1496.

² Figure based on comparing COGFA's FY2015 revenue estimate in COGFA, *Monthly Briefing for the Month Ended: April 2014* (Springfield, IL: April 2014) and House Joint Resolution 80 of the 98th General Assembly.

³ Comparison of FY2014 General Fund service appropriations to FY2009 service appropriations. FY2009 service appropriations from GOMB, *FY2010 Budget Book* (Springfield, IL: March 18, 2009), CH 2-10. FY2014 appropriations from CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*.

⁴ Categories do not add to total due to rounding.

⁵ The Governor's Office of Management and Budget also prepared a new estimate for FY2014 General Fund revenue. Its estimate is only \$4 million more (excluding short-term borrowing) than COGFA's estimate. COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

⁶ Personal and corporate income tax figures are net of refunds.

⁷ COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

⁸ COGFA, *Monthly Briefing for the Month Ended: February 2014* (Springfield, IL: March 2014), 12.

⁹ GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-19.

¹⁰ Note numbers may not perfectly add due to rounding.

¹¹ FY2013 carry forward deficit calculated using actual FY2013 revenue as reported in COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12, and actual spending as reported in GOMB, *Illinois State Budget: Fiscal Year 2014* (Springfield, IL: March 6, 2013), CH 2-16.

¹² Figure based on comparing COGFA's FY2015 revenue estimate in COGFA, *Monthly Briefing for the Month Ended: April 2014* (Springfield, IL: April 2014) and House Joint Resolution 80 of the 98th General Assembly.

¹³ House Joint Resolution 80 of the 98th Illinois General Assembly.

¹⁴ COGFA revised its FY2015 revenue estimate in May of 2014, and the bulk of its increased estimate is for the personal income tax. COGFA's May 2014 revenue estimate is \$167 million more than its March 2014 estimate. However, since the General Assembly adopted the March 2014 estimate for creating the FY2015 budget and has not adopted a new revenue estimate CTBA used COGFA's March 2014 estimate for this report.

¹⁵ COGFA, *Monthly Briefing for the Month Ended February 2014* (Springfield, IL: February 2014), 10.

¹⁶ GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-72. Figure excludes short-term borrowing.

¹⁷ Sources, COGFA, *2014 Senate Appropriations Committees I & II – Economic and Revenue Outlook* (Springfield, IL: February 19, 2014), 19; GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 3-12.

¹⁸ COGFA, *2014 Senate Appropriations Committees I & II – Economic and Revenue Outlook* (Springfield, IL: February 19, 2014), 1.

¹⁹ Net of Refund Fund, Fund for Advancement of Education, and Commitment to Human Services Fund amounts. Amount for if the rate is made permanent does not reflect eliminating the existing property tax credit and replacing it with a refund.

²⁰ Net of Refund Fund amount.

²¹ Net of Refund Fund, Fund for Advancement of Education, and Commitment to Human Services Fund amounts. Amount for if the rate is made permanent does not reflect eliminating existing property tax credit and replacing it with a refund.

²² The amount set forth in Figure 9 for personal income tax revenue if the temporarily increased rate is made permanent excludes increased revenue attributable to the existing property tax credit allowable under current law, which allows income tax filers that own a home to claim a credit of 5 percent of property taxes paid against their state income tax liabilities. This tax credit results in forgone income tax revenue of \$560 million. Because the Governor proposes eliminating this credit and folding it into his \$500 per household Homeowner Refund Proposal, GOMB eliminates the cost of the existing credit from its revenue projections, thereby artificially increasing personal income tax revenue by approximately \$560 million in the FY2015 Recommended Budget. That artificial increase in revenue, however, only materializes if the Homeowner Refund Proposal becomes law, and even then is used to pay for that proposal. Give that this would only occur if the General Assembly passes future legislation to implement the Homeowner Refund Proposal the aforesaid revenue spike is not included in Figure 9.

²³ Net of Refund Fund amount.

²⁴ Excludes short-term borrowing.

²⁵ Net of Refund Fund, Fund for Advancement of Education, and Commitment to Human Services Fund amounts. Amount for if the rate is made permanent does not reflect eliminating the Property Tax Credit and replacing it with a refund.

²⁶ The amount set forth in Figure 10 for personal income tax revenue if the temporarily increased rate is made permanent excludes increased revenue attributable to the existing property tax credit allowable under current law, which allows income tax filers that own a home to claim a credit of 5 percent of property taxes paid against their state income tax liabilities. This tax credit results in forgone income tax revenue of \$560 million. Because the Governor proposes eliminating this credit and folding it into his \$500 per household Homeowner Refund Proposal, GOMB eliminates the cost of the existing credit from its revenue projections, thereby artificially increasing personal income tax revenue by approximately \$560 million in the FY2015 Recommended Budget. That artificial increase in revenue, however, only materializes if the Homeowner Refund Proposal becomes law, and even then is used to pay for that proposal. Give that this would only occur if the General Assembly passes future legislation to implement the Homeowner Refund Proposal the aforesaid revenue spike is not included in Figure 10.

²⁷ Net of Refund Fund amount.

²⁸ Excludes short-term borrowing.

²⁹ 35 ILCS 5/208.

³⁰ Illinois State Comptroller, *Tax Expenditure Report: Fiscal Year 2012* (Springfield, IL: July 2013), A-1.

³¹ CTBA estimate subtracting the cost of the property tax credit in FY2012, adjusted for inflation, from the Property Taxpayers Relief Fund line item in the FY2015 proposed budget (see GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-22).

³² A small portion of the state's annual General Fund pension contribution is made via state agencies, and these contributions have been kept in the General Fund service budget to allow for historical comparisons. For the proposed FY2015 budget, pension payments made by agencies using General Fund monies total \$5.7 million in the Recommended Budget and \$4.8 million in the Doomsday Budget. These small amounts account for less than 0.1 percent of the total General Fund contributions to the retirement systems. The total General Fund contributions account for 90.5 percent in the Recommended Budget and 92.7 percent in the Doomsday Budget of the state's total payments to the retirement systems. Approximately 1/3 of the state's annual contribution to SERS is via non-General Funds.

³³ In the past, the state has used the State Pension Fund to pay for part of its annual required pension contribution to the State Universities Retirement System. The State Pension Fund gets revenue from the sale of unclaimed property (the Unclaimed Property Trust Fund). For FY2015, under current law, GOMB states that the usage of the Unclaimed Property Trust Fund is not permissible, hence its exclusion in the Doomsday Budget. However, the change required to make that permissible is not explained, nor is it explained why that change would not also be done for the Doomsday Budget. See GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014), CH 2-20 and CH 2-23.

³⁴ Associated Press, "Illinois: Judge Halts Pension Overhaul," *New York Times*, May 14, 2014, http://www.nytimes.com/2014/05/15/us/illinois-judge-halts-pension-overhaul.html?_r=0.

³⁵ Categories do not add to total due to rounding.

³⁶ The reimbursement rate depends on whether an individual was previously eligible for Medicaid ("existing eligible") or became eligible under the Affordable Care Act ("new eligible").

³⁷ See U.S. Department of Health and Human Services, *ASPE FMAP 2015 Report* (Washington, DC: January 21, 2014), <http://aspe.hhs.gov/health/reports/2014/FMAP2015/fmap15.pdf>

³⁸ 42 U.S.C. § 1396 (2013).

³⁹ Illinois state law for the Affordable Care Act is PA 98-104; and the federal law is Patient Protection and Affordable Care Act of 2010, 42 U.S.C. § 18001-18121 (2013).

⁴⁰ Categories may not add to totals due to rounding.

⁴¹ Categories may not add to totals due to rounding.

⁴² The amount set forth in Figure 20 for General Fund revenue includes increased personal income tax revenue attributable to the existing property tax credit allowable under current law, which allows income tax filers that own a home to claim a credit of 5 percent of property taxes paid against their state income tax liabilities. This tax credit results in forgone income tax revenue of \$560 million. Because the Governor proposes eliminating this credit and folding it into his \$500 per household Homeowner Refund Proposal, GOMB eliminates the cost of the existing credit from its revenue projection, thereby artificially increasing personal income tax revenue by approximately \$560 million in the FY2015 Recommended Budget. That artificial increase in revenue, however, only materializes if the Homeowner Refund Proposal becomes law, and even then is used to pay for that proposal. Since the Hard Cost figure includes the cost of the Homeowner Refund Proposal, the aforesaid revenue spike is included in Figure 20. Because of this, the total General Fund revenue estimate in Figure 20 differs from the estimates in Figure 9 and Figure 10.

⁴³ Appropriations for current year services estimated by CTBA using the Congressional Budget Office's wage growth estimates (contained in the supplemental data for the *2013 Long-Term Budget Outlook*, <http://www.cbo.gov/publication/44521>). Hard Costs for FY2015-FY2019 from GOMB, *Fiscal Year 2015 5 Year Blueprint* (Springfield, IL: March 2014), and GOMB, *Fiscal Year 2015 5 Year Blueprint Not Recommended* (Springfield, IL: March 2014)—statutory transfer for the Governor's property tax relief refund has been excluded. Hard Costs for FY2020-FY2025 estimated from CTBA using historic Midwest CPI of 2.2 percent, Segal, *Baseline Projections*

Using July 1, 2013 Actuarial Valuations and Cost Projections Under PA 98-599 (Springfield, IL: COGFA, March 26, 2014), and COGFA, *Illinois State Retirement Systems: Financial Condition as of June 30, 2013* (Springfield, IL: March 2014).

⁴⁴ CTBA calculation of General Fund pension contributions under previous and new funding law using data from Segal, *Baseline Projections Using July 1, 2013 Actuarial Valuations and Cost Projections Under PA 98-599* (Springfield, IL: COGFA, March 26, 2014); and *Illinois State Retirement Systems: Financial Condition as of June 30, 2013* (Springfield, IL: March 2014). Calculation done assuming 65 percent of the state's contribution to the State Employees' Pension Fund is via the General Fund, and 90 percent of contribution for the other four retirement systems is made via the General Fund.

⁴⁵ FY2015 revenue with income tax rate phase down from COGFA, *Monthly Briefing for the Month Ended: February 2014* (Springfield, IL: March 2014), and FY2015 for temporary rates made permanent from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014)—CTBA adjusted personal income tax rate amount to reflect property tax credit. Income revenue: for temporary rates made permanent for FY2016-FY2019 CTBA calculation using historic revenue growth rate; FY2016-FY2019 for rate phase down from GOMB, *Fiscal Year 2015 5 Year Blueprint Not Recommended* (Springfield, IL: March 2014); and for FY2020-FY2025 for rate phase down from CTBA calculation using historic revenue growth. For FY2016-FY2025, CTBA calculation for other state revenue using historic growth rate and assuming federal revenue is flat funded.