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It Is All About the Revenue: Why Both Current FY2016 General Fund Budget Proposals Fall Short

Revised August 12, 2015

1. INTRODUCTION

On June 30, 2015, Illinois ended its fiscal year (**FY**) 2015 with an accumulated General Fund deficit of approximately $5.9 billion. This is significant for several reasons. On the one hand, it means roughly 27 percent of total FY2015 spending on current services was deficit spending. That level of deficit spending is not sustainable over time. This in and of itself is cause for concern, given that over 91 percent of the state's General Fund appropriations for current services go to the core areas of education, healthcare, human services, and public safety.

On the other hand, it also means that $5.9 billion of FY2016 revenue will have to be used to cover FY2015 liabilities. The state's fiscal system would lack the capacity to absorb this diversion of current revenue to cover prior year obligations in any fiscal year. In FY2016, however, the fiscal challenge will be particularly acute. That is because on January 1, 2015, Illinois' personal income tax rate declined from five to 3.75 percent, while its corporate income tax rate went from seven down to 5.25 percent. Collectively, those income tax rate cuts will cause the state's General Fund to lose $4.6 billion in recurring revenue over the course of a full fiscal year.[1]

When considered together, the impact of the $4.6 billion in lost annual revenue combined with the $5.9 billion accumulated deficit carry forward, mean that simply keeping FY2016 General Fund spending on current services level with FY2015 creates a revenue shortfall of $10.2 billion.[2] Considering that final FY2015 spending on current services (after all supplemental changes) is projected to be $24.589 billion, that $10.2 billion shortfall would mean that over 41 percent of all spending on current services in FY2016 would be deficit spending.

In what, from a fiscal standpoint, can only be described as "piling on", FY2016, which began on July 1, 2015, opened without having a final, General Fund budget passed into law. True, at the end of May, the General Assembly did pass a General Fund budget for FY2016, on a purely partisan basis, with support for the budget coming solely from Democrats. No Republican legislators voted in favor of it. Moreover, the fiscal gulf between the two parties on the appropriate amount of current service spending for FY2016 is significant, given that the budget that the Democrats passed through the General Assembly appropriates nearly $4.5 billion more in expenditures than what Republican Governor Bruce Rauner proposed for FY2016 in his budget. This meaningful differential in spending has created an impasse between the legislative and executive branches of state government which to date has not been overcome.

Indeed, if anything, the differences between the budget that was passed by the General Assembly and the Governor's proposal became somewhat murkier on June 25, 2015, when the Governor vetoed nearly all of the budget bills that the Democrats passed through the General Assembly – with the exception of Early and K-12 Education appropriations, which he signed off on. The problem is that legislation includes some $3.7 billion in contributions to the Teachers' Retirement System (**TRS**) for pensions and debt repayment that are required by current law. The Governor's budget proposal, however, reduces overall pension contributions to the public retirement systems by some $2.2 billion from what is required under current law.[3] Given that TRS is the largest of the five public pension systems the state has the obligation to fund, it is unclear how the material discrepancy between what the Governor has allocated for pension funding in his overall budget proposal and the greater levels of funding for TRS in the Early and K-12 Education budget he approved will be resolved.

Governor Rauner's FY2016 budget proposal focuses primarily on implementing $5 billion in spending cuts in part make up for the $4.6 billion annual revenue loss caused by the phase down of the state's income tax rates.

However, at least $3.2 billion of his proposed spending cuts will likely not be realized in FY2016 for legal, constitutional, and related reasons.

Meanwhile, although it would spend significantly more on services than does the Governor's budget, the alternative FY2016 spending plan passed by the General Assembly would nonetheless reduce FY2016 General Fund appropriations on services by $590 million from FY2015 levels. Unfortunately, the Democratic proposal does not include sufficient revenue to cover the higher level of spending it authorizes. Hence, if it became law, it would increase the projected accumulated General Fund deficit for FY2016 to nearly $10 billion.

Both budget proposals for FY2016 suffer from one common—and crucial—flaw: they fail to address the state's need to generate adequate and sustainable revenue to fund core services. Indeed, Illinois has accumulated its long-term deficit problems not because it spends in a profligate fashion on services, but rather because its tax policy is poorly designed and simply does not work in a modern economy. This reality was highlighted by Tim Nuding, Director of Governor Rauner's Office of Management and Budget, when he explained that the cuts being proposed were difficult, because: "We've suspended good programs because we don't have the revenue to support them."[4]

The simple, evidence-based truth is that Illinois' tax policy is so poorly designed that it consistently does not generate enough revenue to maintain delivery of the same level of services from one fiscal year to the next, after adjusting for inflation. This mismatch between the growth in annual revenue and the greater, inflation-based annual growth in public service costs is called a "structural deficit." It also means that the state's fiscal problems cannot be resolved sustainably until Illinois tax policy is reformed to work in the modern economy and generate adequate revenue to fund core services over time. Unfortunately, despite the clear and compelling evidence that flawed revenue policy is the most significant driver of Illinois' fiscal problems, neither FY2016 budget proposal identifies any of the tax policy reforms needed to modernize Illinois' fiscal system and raise adequate revenue to sustain service levels over time.

Following is an overview of both Governor Rauner's proposed FY2016 General Fund budget and the FY2016 budget which the Democrats passed through the General Assembly.

2. FY2015 SUPPLEMENTAL APPROPRIATIONS AND ACCUMULATED DEFICIT

Before analyzing the two different General Fund proposals for FY2016, supplemental changes made to the FY2015 budget after it initially passed must be taken into account. These changes affect the accumulated deficit projected to be carried forward into FY2016, as well as year-to-year comparisons of funding levels for the different service categories.

Since FY2015 ran from July 1, 2014, through June 30, 2015, the reduced income tax rates that became effective on January 1, 2015, were in effect for half of the fiscal year. As a result, when the FY2015 budget was initially crafted, it was estimated that total General Fund revenue in FY2015 would be at least $2 billion less than it was in FY2014.[5] Lawmakers avoided dealing with this anticipated revenue loss by passing what was dubbed a "partial" budget for FY2015. It was "partial" for two reasons. First, the appropriations identified for numerous public service areas were intentionally set at levels below what the actual, anticipated liability for those services was expected to be. Second, the enacted FY2015 budget relied on one-time borrowings from other state funds to mitigate a portion of the anticipated revenue shortfall. Lawmakers left the task of how to resolve fully the final shortfall in the FY2015 budget until after the November 2014 gubernatorial election. During the campaign, then-Governor Pat Quinn advocated making the income tax rates temporarily increased under the Taxpayer Accountability Budget Stabilization Act (**TABSA**) permanent, while then-candidate Bruce Rauner supported taking no action and allowing the tax rates to phase down on January 1, 2015 as scheduled.[6]

Shortly after winning office, Governor-elect Rauner asked lawmakers not to take any serious actions to address the revenue shortfall in the FY2015 budget until after his inauguration on January 12, 2015.[7] Complying with this request, during the veto session that took place in November and December of 2014, lawmakers did not pass any legislation that significantly affected the FY2015 budget. That legislative inaction, however, strained the fiscal capacity of state agencies and service providers, because the appropriations received under the "partial" FY2015 budget were inadequate to cover actual service costs for the full year. Indeed, by February 2015, state government agencies began warning that they would soon run out of money and many essential services would have to be curtailed.[8]

The aforesaid fiscal problems with the FY2015 budget were made worse when General Fund revenues for FY2015 came in at levels lower than anticipated. In March, the Commission on Government Forecasting and Accountability (**COGFA**) released an updated projection that estimated total General Fund revenue would be $1.25 billion *less* than the revenue estimate lawmakers used to craft the FY2015 budget.[9] COGFA's lower revenue estimate was attributable to two factors. First, as indicated previously, the "partial" FY2015 budget lawmakers passed relied on some $650 million that the Governor was authorized to obtain by borrowing against various special state funds, to be used as a one-time revenue source to replace some of the recurring revenue lost from the phase down of the income tax rates. At that time, Governor Rauner had chosen not to borrow that $650 million, which accounts for about half of the decrease in COGFA's revenue estimate.[10] The remaining $600 million in the lower estimate is largely attributable to reduced federal transfers.[11]

To address the fiscal problems with the "partial" FY2015 budget, lawmakers passed two pieces of legislation—House Bills (**HB**) 317 and 318—on March 26, 2015. HB 317 implemented spending cuts for some agencies while identifying increased appropriations for others. The net impact of the bill, as shown in Figure 1, was to increase gross appropriations by nearly $300 million. However, more than all of the additional spending authorized by HB 317 was offset by a $616 million increase in the "unspent appropriations" line item.

The "unspent appropriations" line in a budget represents the amount of total appropriations aggregated across all service lines that will not actually be spent in a given fiscal year. This effectively allows elected officials to set budgetary appropriations for services at higher levels than will actually be met, and to defer identifying which specific services will be cut until later in the fiscal year. Whenever there is a budgetary amount reserved for "unspent appropriations", the gross service appropriates for that year must be reduced by the unspent appropriations amount to project actual net spending for the fiscal year in question accurately. Hence, the gross appropriations line represents the maximum possible amount agencies can spend during a fiscal year, but some agencies' actual spending will be less, depending on how the "unspent appropriations" amount is allocated over the year.

This means that while gross appropriations for FY2015 were scheduled to total $25.54 billion, actual spending was $950 million less. Indeed, as a result, of the $616 million increase in the unspent appropriations line, overall net appropriations under the revised FY2015 General Fund budget are actually $329 million—or 1.3 percent—less than the original FY2015 budget approved by lawmakers last spring.

Figure 1
Updated FY2015 General Fund Appropriations ($ Millions)

Category	Original	Updated FY2015	Nominal Difference	Nominal Difference (%)
K-12 Education	$6,305	$6,254	($51)	-0.8%
Early Education	$300	$300	$0	0%
Higher Education	$1,991	$1,946	($45)	-2.2%
Human Services	$4,806	$5,136	$331	6.9%
Healthcare	$7,446	$7,303	($144)	-1.9%
Public Safety	$1,620	$1,704	$84	5.2%
Group Health	$1,565	$1,565	$0	0%
Other	$1,218	$1,239	$22	1.7%
Governor Discretionary	N/A	$90	N/A	N/A
Gross Appropriations	**$25,252**	**$25,539**	**$287**	**1.1%**
Less Unspent Appropriations	*($334)*	*($950)*		
Net Appropriations	**$24,918**	**$24,589**	**($329)**	**-1.3%**

Notes: Numbers do not add due to rounding; K-12 Education **excludes** $200 million appropriation from the Fund for Advancement of Education; and Human Services **excludes** $200 million appropriation from the Commitment to Human Services Fund. Sources: HB 317 of the 99th General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.

House Bill 318 authorized a transfer of $1.3 billion from other state funds to the General Fund, creating a one-time revenue source for FY2015. As such, total General Fund revenue for FY2015 is $35.89 billion.[12] Because the $1.3 billion will be swept from the other state funds rather than borrowed, it will not have to be repaid. The one-time revenue these sweeps generate for the General Fund have two concomitant consequences. First, the revenue diverted to the General Fund likely will require offsetting cuts to services delivered through the special state funds being swept. Second, the $1.3 billion in General Fund service spending supported by those sweeps in FY2015 cannot be sustained in FY2016, because fund sweeps are not a recurring revenue source.

As a result of the aforementioned supplemental budget changes, CTBA now estimates that FY2015 ended with a $5.9 billion accumulated deficit in the General Fund, as shown in Figure 2.

Figure 2
Projected FY2015 General Fund Deficit, Updated to Include Impact of HB 317 and HB 318
($ Billions)

Step	Revenue	$ Billions	Spending	$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2015 Revenue[13]	$35.89	FY2015 Hard Costs	$10.76	$25.13
(ii)	Revenue After Hard Costs	$25.13	Estimated Accumulated Deficit Carry Forward from FY2014	$6.48	$18.65
(iii)	Projected Net FY2015 General Fund Revenue Available for Services	$18.65	Projected Net General Fund Service Appropriations	$24.59	($5.94)
Projected Accumulated FY2015 General Fund Deficit		**($5.94)**			
Projected Deficit as a Percentage of General Fund Service Appropriations		**-24.2%**			

Sources: HB 317 and 318 of the 99th General Assembly; COGFA, *FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update* (Springfield, IL: March 10, 2015), 23; GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6; and, COGFA, *Monthly Briefing for the Month Ended: June 2015* (Springfield, IL: June 2015), 5.

As indicated previously, this accumulated deficit has a real impact on the FY2016 budget, because it will require the use of FY2016 revenue to pay for $5.94 billion of FY2015 liabilities, thereby reducing the amount of FY2016 revenue available to fund current FY2016 services.

3. PROPOSED FY2016 GENERAL FUND BUDGETS

3.1 Estimated FY2016 Revenue

While the reduced income tax rates had a significant negative impact on the FY2015 budget, this impact is projected to be significantly worse in FY2016, because the lower income tax rates will be in effect for the full fiscal year. Moreover, as indicated previously, some $1.3 billion in General Fund spending in FY2015 was covered by the one-time revenue obtained from sweeping non-General Funds. As Figure 3 shows, even though federal transfers to the General Fund in FY2016 are estimated to be over $1 billion more than in FY2015, the significant year-to-year loss in revenue from state sources means FY2016 will have over $3.7 billion less in total revenue than FY2015.

Figure 3
FY2015 and FY2016 Revenue Estimates ($ Millions)

Revenue Source	FY2015 (COGFA)	FY2016 (COGFA)	Difference
Personal Income Tax[14]	$15,429	$12,403	($3,026)
Corporate Income Tax[15]	$2,690	$2,254	($436)
Sales Tax	$8,030	$8,280	$250
Other Taxes, Fees and Interest Income	$3,416	$3,164	($252)
Transfers In (Primarily Lottery and Gaming)	$1,709	$1,630	($79)
One-Time Revenue from Non-General Fund Sweeps	$1,284	0	($1,284)
Total State Revenue Sources	***$32,558***	***$27,731***	***($4,827)***
Federal Sources	$3,330	$4,408	$1,078
Total General Fund Revenue	**$35,888**	**$32,139**	**($3,749)**

Sources: COGFA, *FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update* (Springfield, IL: March 10, 2015), 23; COGFA, *Monthly Briefing for the Month Ended: June 2015* (Springfield, IL: June 2015), 5.

3.2 Aggregate FY2016 Appropriations, by Type under Both Proposed Budgets

The Governor's and Democrats' proposed FY2016 General Fund budgets are detailed by major spending category in Figure 4.

Figure 4
Democrats' FY2016 Proposed General Fund Appropriations ($ Millions)

Category	Governor's Proposal	Democrats' Proposal	Difference between Governor and Democrats'
(i) Total General Fund Appropriations (Gross)	**$30,909**	**$35,364**	**($4,455)**
(ii) Total Hard Costs	**$8,170**	**$11,368**	**($3,198)**
• Debt Service (Pension & Capital Bonds)	$2,129	$2,129	$0
• Statutory Transfers Out Under Current Law	$1,569	$2,482	($913)
• Pension Contributions	$4,472	$6,757	($2,285)
(iii) Gross General Fund Current Service Appropriations (Education, healthcare, human service, and public safety account for 90 percent of this line)	**$23,392**[16]	**$24,649**	**($1,257)**
(iv) "Unspent Appropriations"	**($653)**	**($653)**	**$0**
(v) Net General Fund Service Appropriations	**$22,739**	**$23,996**	**($1,257)**

As shown in Figure 4, the Governor's proposed FY2016 budget authorizes roughly $4.5 billion less in spending than the budget passed by the Democrats in the General Assembly. The majority of the spending difference between the two proposals is for "Hard Costs," while a smaller portion is made up of differences in current service appropriations. "Hard Costs" refer to expenditures that are required by law that neither the General Assembly nor the Governor has the discretion to reduce or eliminate without changing current law.

The Hard Costs line shown in Figure 4 includes three items: "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 funds; and "Pension Contributions," the vast majority of which is for payments required by law to be made to the state's five retirement systems. The "Pension Contributions" line item also includes the state's payments to the Teachers' Retirement Insurance Program (**TRIP**), the College Insurance Program (**CIP**), and the Chicago Teachers' Pension Fund (**CTPF**).

3.3 Hard Costs

Whereas the Democrats' spending plan accommodates the full amount of Hard Costs required under current law, the Governor's proposed FY2016 budget calls for legislative changes that would reduce the state's Pension Contributions by $2.3 billion and Statutory Transfers by $913 million, thereby cutting the Hard Cost line by just over $3.2 billion from what would otherwise pertain under current law. However, for the reasons delineated below, the changes to current law required to generate these "savings" are unlikely to materialize.

3.3.1 *Statutory Transfers*

Governor Rauner's proposed FY2016 budget calls for reducing or eliminating the transfer of $913 million in General Fund revenue to 11 special state funds that is required under current law.[17] The vast majority of the proposed $913 million in statutory transfer reductions—91.6 percent—would come from cutting General Fund transfers to three funds: the Local Government Distributive Fund, the Public Transportation Fund, and the Downstate Public Transportation Fund, as illustrated in Figure 5.

Figure 5
Comparison of FY2016 Statutory Transfers under Current Law and Governor Rauner's Proposal: Three Largest Funds Impacted ($ Millions)

Fund	FY2016 Contribution—Governor's Proposal	FY2016 Contribution—Current Law	Difference between Current Law and Governor's Proposal	Difference (%)
Local Government Distributive Fund	$634	$1,268	($634)	-50.0%
Public Transportation Fund	$385	$512	($127)	-24.8%
Downstate Public Transportation Fund	$150	$225	($75)	-33.3%
Total	**$1,169**	**$2,005**	**($836)**	**-41.7%**

Source: CTBA analysis of letter from Tim Nuding, Director of GOMB to member of the General Assembly regarding statutory transfers (dated February 18, 2015), http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/Budget%20Book%20FY16/FY2016General%20FundsTransferOutDetail.pdf

The Governor's proposed FY2016 budget calls for cutting $202 million in transfers to public transportation agencies and departments throughout the state (through both the Public Transportation Fund and the Downstate Public Transportation Fund). These proposed budget savings at the state level, however, would be gained at the expense of cutting funding relied upon by units of local government. For instance, cuts to the Public Transportation Fund affect the budget of the Chicago Transit Authority (**CTA**), which serves an estimated 545 million riders a year, [18] as well as the budgets for Metra and Pace.[19] While smaller in magnitude, cuts to the Downstate Public Transportation Fund have the potential to affect the roughly 60 local transit operators and providers that receive money from the fund.[20] It is probable that cuts of this magnitude will result in service cuts, fare increases for transit users, or some combination thereof.

The largest proposed cut would be to the Local Government Distributive Fund (**LGDF**). Under the LGDF, the state shares part of the revenue it collects from state income taxes with local governments in Illinois. Under the Governor's proposed FY2016 budget, the amount of this revenue the state shares with local governments would be cut in half, from the $1.268 billion required under current law to $634 million.[21] A cut of this magnitude will have a significant impact on local governments, who receive anywhere from 10 to 15 percent of their operating revenue from LGDF transfers.[22] Cutting the LGDF transfer in half for FY2016 does little to address the state's budgetary problems, and simply shifts the burden of paying for public services from state revenue to local property tax revenue.

Mayors throughout Illinois have objected to the proposed LGDF cut, warning that local governments may be forced to address revenue shortfalls by "cutting front-line services, raising property taxes, delaying needed projects and repairs, or laying off workers, including police officers and firefighters."[23] Essentially, many local governments would have to raise local property taxes or cut services, including vital services such as public safety, to offset Governor Rauner's proposed reductions to the LGDF. Any increase in local property taxes needed to offset lost LGDF funding, however, would run contrary to Governor Rauner's desire to impose a permanent property tax freeze.[24] Indeed, to a large extent, the over-reliance on local property taxes in Illinois has been driven by the state's failure to fund K-12 education adequately.[25] It is therefore likely that a decision by the state to cut this revenue source for local governments will worsen the over-reliance on property taxes statewide.

The General Assembly's spring legislative session ended without lawmakers passing any legislation that would reduce statutory transfers as proposed by the Governor, making them unlikely to materialize in FY2016. This is because, unlike current year service appropriations, which must be approved by the General Assembly, statutory transfer payments are made automatically. Hence, if no action is taken by the General Assembly, most of the legally required statutory transfers will be made as scheduled under existing law.[26]

3.3.2 *Pension Contributions*

When he introduced his proposed FY2016 budget in February of 2015, the Governor suggested cutting various retirement benefits for public sector worker, which – if passed into law and upheld as constitutional (both questionable outcomes) – would reduce the total General Fund pension contributions to all five state retirement systems in FY2016, from $6.6 billion to $4.4 billion, or $2.2 billion less than required under current law.[27] However, on June 24, 2015, Governor Rauner signed HB 3763 into law. In addition to allocating specific General Fund appropriations to Early and K-12 Education for FY2016, HB 3763 also contains nearly $4 billion in appropriations dedicated to the Teachers' Retirement System, the Teachers' Retirement Insurance Program, College Insurance Program, and the Chicago Teachers' Pension Fund: This is problematic, because those appropriations are based on the pension funding requirements established under *current* law. As such, the appropriations for pensions contained in HB 3763 are materially greater than and directly conflict with pension contributions identified in the FY2016 budget proposed by the Governor. Despite signing that bill into law, the Governor continues to advocate for reductions in pension benefits that he claims will reduce the total amount required to be contributed into the five systems by the $2.2 billion he identified in February.[28] Moreover, the discrepancy this creates is material – amounting to some $1.2 billion – given that the Teachers' Retirement System is by far and away the largest of the five public pension systems, accounting for some 55 percent of the $111.2 billion in total unfunded pension liabilities.

While this discrepancy could be mitigated in a number of ways, such as reducing pension appropriations at a future date, reimbursing the General Fund for contributions made, allocating "unspent appropriations" to the TRS pension contributions, thereby reducing it from the amount stated in HB 3763, and/or cutting other items in the budget. However, given that the Governor's office has yet to provide guidance on the matter, and the Governor continues to advocate for cutting pension benefits, this Report analyzes the Governor's recommended budget using the total pension payment contained in his overall General Fund budget proposal released in February of 2015, without adjusting for the apparent increase in pension funding the Governor accepted by signing HB 3763.

The bulk of the total proposed cut to the Pension Contribution line item is in the form of reduced contributions to the five state pension systems. Figure 6 compares the pension contributions to the five state pension funds required under current law with the pension contributions proposed in the Governor's FY2016 budget.

Figure 6
Comparison of FY2016 Pension Contributions under Current Law and Governor's Proposal ($ Millions)[29]

Pension System	FY2016 Contribution—Governor's Proposal	FY2016 Contribution—Current Law	Difference between Current Law and Governor's Proposal
Teachers' Retirement System (**TRS**)	$2,497.6	$3,742.8	($1,245.3)
State Universities Retirement System (**SURS**)	$1,002.1	$1,411.5	($409.4)
State Employees' Retirement System (**SERS**)	$854.7	$1,329.2	($474.5)
Judges' Retirement System (**JRS**)	$105.3	$132.1	($26.8)
General Assembly Retirement System (**GARS**)	$12.2	$16.1	($3.9)
Total	**$4,471.9**	**$6,631.6**	**($2,159.7)**

Sources: GOMB's "Operating Budget Detail," February 2015, *Excel file*; and House Bill 3763 and Senate Bills 2030, 2033, and 2035 of the 99th General Assembly.
Note: cuts shown in Figure 6 do not include the proposed cuts to TRIP, CIP, and the CTPF.

In July of 2015, Governor Rauner unveiled details of his pension proposal in a nearly 500-page piece of legislation. The Governor's July 2015 proposal, however, differs from the one in his proposed FY2016 budget.

Despite the differences between the two, there has been no detailed information as to what the pension contributions would be under the Governor's July 2015 proposal. When asked how much the July proposal would save, Governor Rauner stated, "'a couple of billion' dollars a year."[30]

Under the Governor's proposal, current employees in TRS, GARS, and SURS who were hired prior to January 1, 2011, would have to choose between two different options, both of which ultimately reduce their pension benefits. Under the first option, individuals would keep the current cost-of-living adjustment (**COLA**)--which is 3 percent and compounded. In exchange for that choice, the salary that would be used to calculate their pension benefit would be capped,[31] which would ultimately result in a lower benefit. Under the second option, individuals would choose a reduced COLA,[32] but in exchange the salary used to determine their pension benefit would not be capped.

The proposed changes to pension benefits for current employees in the State Employees' Retirement System, however, are very different, and are also based on a variation of the idea that pension benefits could be constitutionally reduced as long as there is "consideration" for that reduction. In other words, employees should be allowed to give up future benefits for some immediate benefit. To achieve this exchange, the Governor's proposal cuts pay, vacation, and tenure rules. To ensure that these will not be restored in contract negotiations, the bill prohibits collective bargaining over pay, vacation, and tenure protection. After these wages and benefits are cut, employees are then given a choice of restoring some of these cuts (or taking a small bonus) in exchange for earning lower pension benefits going forward by moving into a reduced pension benefit tier called "**Tier-2**". Currently, all employees hired before January 1, 2011, are in the "**Tier-1**" pension system. The Tier-2 benefit structure, which was created in 2010 for new hires, provides a benefit that is significantly less than the Tier-1 benefit. For example, a teacher in Tier 2 receives roughly one-third the benefit of a teacher in Tier-1.[33] In exchange for moving into Tier-2, employees could then chose one of three incentive packages.[34] The Governor argues that since wages and fringe benefits like vacation are not protected under the Constitution, the General Assembly may cut them, and that restoring these benefits would constitute valuable consideration in exchange for an employee agreeing to lower pension benefits going forward.

There are a number of issues with the Governor's pension proposal. First and foremost, the Governor's proposed changes to pension benefits for at least TRS, GARS, and SURS are plainly unconstitutional under the Illinois state constitution. The Governor argues that his proposal does not violate the pension protection clause of the state constitution because it only affects future benefits, and not those already accrued. However, under the clear and unambiguous language of the Illinois Constitution, that distinction makes no legal difference. Article XIII, Section 5 of Illinois' Constitution plainly states, "Membership in any pension or retirement system…shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." Indeed, the Illinois

Supreme Court's recent ruling on legislation passed in 2013 that cut benefits for current employees and retirees is especially helpful in understanding how the Court would judge the legality of the Governor's proposal. In striking down the 2013 law, the Court stated (emphasis added):

> Under article XIII, section 5 [of the Illinois state constitution], members of pension plans subject to its provisions have a legally enforceable right to receive the benefits they have been promised…**The protections afforded to such benefits by article XIII, section 5 attach once an individual first embarks upon employment in a position covered by a public retirement system, not when the employee ultimately retires**.[35]

In this passage from the ruling, it is clear that the Court does not distinguish between accrued benefits and future benefits under the pension protection clause. Any benefit reductions, whether for benefits currently accrued or accruing in the future violates the Illinois Constitution.

The theory that the Constitution allows pension benefits to be reduced as long as there is sufficient consideration has never been approved by any court in Illinois. Even if such a theory was accepted, however, it is highly unlikely that the Supreme Court would consider restoring wages and fringe benefits cut specifically to encourage employees to agree to lower pension benefits as consideration.

Moreover, from an implementation standpoint, it is highly unlikely that any savings from the Governor's proposal would materialize in FY2016. First, making the changes proposed would require legislation to be crafted and passed by the General Assembly. Given recent court rulings on this subject,[36] it is highly unlikely that the General Assembly will approve legislation that unilaterally cuts benefits for current employees. Second, even if it is passed by the General Assembly, the proposal will likely take time to implement and presents a significant administrative burden for the retirement systems. For example, the retirement systems would need to counsel members on the changes and their choices, and then have them choose.

Ultimately, no FY2016 savings can be expected to materialize from the Governor's proposed cuts to hard costs. Reducing statutory transfers requires legislative action on the part of the General Assembly, which is unlikely. Moreover, even if current law is changed to save the state money by cutting transfers, doing so only shifts the burden of funding services from state government to local units of government (such as city and county governments, as well as public transit agencies throughout the state). This will worsen Illinois' over-reliance on property taxes, and create inequities, as only those communities with adequate local property wealth will have the capacity to handle this cost shift. Poor and lower income communities with fewer resources will inevitably lose services. In addition to requiring legislative changes like the proposed cuts to statutory transfers, Governor Rauner's proposed change for current employees in TRS, SURS and GARS is unconstitutional on its face. Moreover, even if permitted, it would require significant time to implement, making it impossible to achieve $2.2 billion in savings during FY2016.

3.4 Cuts to Discretionary Spending

Total FY2016 General Fund spending on current services in the Governor's proposal is $1.3 billion less than in the Democrats' proposed budget. Figure 7 provides a comparison of service spending by each major category under the two General Fund budget proposals.

Figure 7
FY2016 Current Year General Fund Service Spending Comparison ($ Millions)

Category	FY2016 Governor	FY2016 Democrats	$ Difference	% Difference
Healthcare (including Medicaid)	$6,431	$7,317	($885)	-12.1%
Early Childhood Education	$319	$319	$0	0%
K-12 Education	$6,221	$6,221	$0	0%
Higher Education	$1,593	$1,899	($307)	-16.2%
Human Services	$4,743	$4,750	($7)	-0.1%
Public Safety	$1,799	$1,795	$4	0.2%
Group Health	$1,195	$1,195	$0	0.0%
Other	$1,091	$1,154	($62)	-5.4%
Total Spending (Gross)	**$23,392**	**$24,649**	**($1,258)**	**-5.1%**

Source: GOMB's "Operating Budget Detail," February 2015, *Excel file*; and House Bill 3763, 4151, 4153, 4154, 4146-4148, 4158-4160, and 4165; and, Senate Bills 2029-2037 of the 99th General Assembly.

It must be noted that the totals shown in Figure 7 represent what maximum spending authorized for the various service categories. Actual spending on core services in FY2016 will be less than those appropriations irrespective of which budget passes because, as highlighted in line (iv) of Figure 4, both proposals assume a portion of total appropriations will remain unspent.

Further, the proposed appropriations for Human Services shown in Figure 7 is not an apples-to-apples comparison. This is because, as part of his recommended budget for FY2016, the Governor is proposing to eliminate a special state fund that covers some specific human service expenditures, known as the "Commitment to Human Services Fund".[37] Under current state law, starting February 1, 2015, 1/30 (3.3 percent) of the state's income tax revenue collections are automatically deposited into the Commitment to Human Services Fund.[38] The purpose of the Commitment to Human Services Fund is to provide support for community-based human service providers and state funded human service programs. The Commitment to Human Services Fund is intended to provide fiscal support that is **above** existing levels.[39] Under current law an estimated $446 million of income tax revenue will be deposited into the Commitment to Human Services Fund in FY2016.[40]

Under the Governor's proposed FY2016 budget, however, the Commitment to Human Services Fund is eliminated, and the $446 million that would have been deposited into that fund will instead be deposited into the General Fund. Under the Democrats' proposal, however, that special state fund would be left intact. As such, to create a true apples-to-apples comparison between the Governor's and Democrats' proposed spending on current year services, appropriations from the Commitment to Human Services Fund must be included in the Democratic proposal. Figure 8 shows that after adjusting for the Commitment to Human Services Fund, the Governor's proposed FY2016 budget for current year services is $1.7 billion less than the Democrats'.

Figure 8
FY2016 Current Year Service Spending Comparison– Including Appropriations from the Commitment to Human Services Fund ($ Millions)

Category	FY2016 Governor	FY2016 Democrats	$ Difference	% Difference
Healthcare (including Medicaid)	$6,431	$7,317	($885)	-12.1%
Early Childhood Education	$319	$319	$0	0%
K-12 Education	$6,221	$6,221	$0	0%
Higher Education	$1,593	$1,899	($307)	-16.2%
Human Services	$4,743	*$5,193**	($453)	-8.7%
Public Safety	$1,799	$1,795	$4	0.2%
Group Health	$1,195	$1,195	$0	0.0%
Other	$1,091	$1,154	($62)	-5.4%
Total Spending (Gross)	**$23,392**	**$25,093**	**($1,701)**	**-6.8%**

Source: GOMB's "Operating Budget Detail," February 2015, *Excel file*; House Bill 3763, 4151, 4153, 4154, 4146-4148, 4158-4160, and 4165; and, Senate Bills 2029-2037 of the 99th General Assembly. *Human Services **includes** $446 million appropriation from the Commitment to Human Services Fund for the Democrats' plan.

3.5 Nominal Dollar Comparison of FY2016 Budget Proposals to FY2015

Comparing both FY2016 proposed budgets to the FY2015 enacted budget highlights the fiscal impact that allowing the temporary tax increases to phase down as scheduled under TABSA had on Illinois.

3.5.1 *Illinois Democrats' FY2016 Spending Plan*

Under the Democrats' proposal, net FY2016 General Fund spending on services would be $592 million less in nominal dollars that it was in FY2015, a 2.4 percent year-to-year cut. Figure 9 provides a detailed comparison of the Democrats' proposed FY2016 budget with the final FY2015 General Fund budget (adjusted for all supplemental changes).

Figure 9
FY2016 Democrats' General Fund Spending Plan Compared to FY2015 Enacted Budget
($ Millions)

Category	FY2015	FY2016 Proposed	Nominal Difference	Nominal Difference (%)
K-12 Education	$6,254	$6,221	($33)	-0.5%
Early Education	$300	$319	$19	6.2%
Higher Education	$1,946	$1,899	($47)	-2.4%
Human Services	$5,136	$4,750	($387)	-7.5%
Healthcare	$7,303	$7,317	$14	0.2%
Public Safety	$1,704	$1,795	$91	5.3%
Group Health	$1,565	$1,195	($370)	-23.6%
Other	$1,239	$1,154	($86)	-6.9%
Governor Discretionary	$90	$0	N/A	N/A
Gross Appropriations	**$25,539**	**$24,649**	**($889)**	**-3.5%**
Less Unspent Appropriations	*($950)*	*($653)*		
Net Appropriations	**$24,589**	**$23,996**	**($592)**	**-2.4%**

Sources: FY2016, House Bill 3763, 4151, 4153, 4154, 4146-4148, 4158-4160, and 4165; and, Senate Bills 2029-2037 of the 99th General Assembly; and, FY2015, HB 317 of the 99th General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.

The year-to-year cuts to funding for K-12 Education and Human Services shown in Figure 9 do not fully capture how those two categories of the budget would actually be affected by the Democrats' proposal. While $33 million would be cut in General Fund appropriations for K-12 Education under the Democrats' FY2016 budget proposal, that cut would be offset by an increase in appropriations to the Fund for the Advancement of Education, a special state fund. Under current law, funding for K-12 Education from the Fund for the Advancement of Education is scheduled to increase from $200 million in FY2015 to $446 million in FY2016—a net increase of $246 million. As shown in Figure 10, the ultimate result is that K-12 Education appropriations (taking both the General Fund and the Fund for the Advancement of Education into account) actually increases by $213 million under the Democrats' spending plan.

Figure 10
Democrats' Plan: K-12 Spending Comparison–Including Appropriations from the Fund for the Advancement of Education ($ Millions)

Fund	FY2015	FY2016 Democrats' Proposal	Nominal Difference	Nominal Difference (%)
General Fund	$6,254	$6,221	($33)	-0.5%
Fund for the Advancement of Education	$200	$446	$246	123%
Total	**$6,454**	**$6,667**	**$213**	**3.3%**

Sources: FY2016, House Bill 3763 and 4151; and, FY2015, HB 317 of the 99th General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.

Similarly, while General Fund appropriations for Human Services under the Democrats' plan would be $387 million less than FY2015, this proposed cut is partially offset by the increase in the Commitment to Human Services Fund, which, like the Fund for the Advancement of Education, is estimated to increase from $200 million in FY2015 to $446 million in FY2016 under current law. As such, including appropriations from the General Fund and the Commitment to Human Services Fund, the effective year-to-year cut to Human Services under the Democrats' proposal is approximately $140 million, as shown in Figure 11.

Figure 11
Democrats' Plan: Human Services Spending Comparison–Including Appropriations from the Commitment to Human Services Fund ($ Millions)

Fund	FY2015	FY2016 Governor Proposal	Nominal Difference	Nominal Difference (%)
General Fund	$5,136	$4,750	($387)	-7.5%
Commitment to Human Services Fund	$200	$446	$246	123%
Total	**$5,336**	**$5,196**	**($140)**	**-2.6%**

Sources: FY2016, House Bill 4165 and Senate Bills 2036 and 2037; and, FY2015, HB 317 of the 99th General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.
Note: numbers do not add due to rounding

3.5.2 *Governor's Proposed FY2016 Budget Highlights*

Under the Governor's proposal, net General Fund spending on services for FY2016 would be cut by $1.85 billion compared to FY2015, as shown in Figure 12.

Figure 12
FY2016 Governor's General Fund Budget Compared to FY2015 Enacted
($ Millions)

Category	FY2015	FY2016 Proposal	Nominal Difference	Nominal Difference (%)
K-12 Education	$6,254	$6,221	($33)	-0.5%
Early Education	$300	$319	$19	6.2%
Higher Education	$1,946	$1,593	($354)	-18.2%
Human Services	$5,136	$4,743	($393)	-7.7%
Healthcare	$7,303	$6,431	($871)	-11.9%
Public Safety	$1,704	$1,799	$94	5.5%
Group Health	$1,565	$1,195	($370)	-23.6%
Other	$1,239	$1,091	($148)	-11.9%
Governor Discretionary	$90	$0	N/A	N/A
Gross Appropriations	**$25,539**	**$23,392**	**($2,147)**	**-8.4%**
Less Unspent Appropriations	*($950)*	*($653)*		
Net Appropriations	**$24,589**	**$22,738**	**($1,850)**	**-7.5%**

Sources: FY2016 from GOMB's "Operating Budget Detail," February 2015; HB 317 of the 99th General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.

As with the Democrats' proposed spending for K-12 Education, the $33 million General Fund cut shown in Figure 12 is offset by the $246 million increase in funding from the Fund for the Advancement of Education (see Figure 10 and related discussion).

A. Impact of Eliminating the Commitment to Human Services Fund

The $393 million decrease in General Fund appropriations to Human Services shown in Figure 12 fails to capture the full impact of the Governor's proposal for FY2016. As previously noted, under the Governor's proposal the Commitment to Human Services Fund would be eliminated and its revenue would instead be diverted to the General Fund. This means that, after accounting for the diversion of revenue from the Commitment to Human Services Fund to the General Fund, and the concomitant cut in human services spending that is caused by that diversion, the total year-to-year cut for Human Services is $593 million, as shown in Figure 13.

Figure 13
Democrats' Plan: Human Services Spending Comparison–Including Appropriations from the Commitment to Human Services Fund ($ Millions)

Fund	FY2015	FY2016 Governor Proposal	Nominal Difference	Nominal Difference (%)
General Fund	$5,136	$4,743	($393)	-7.7%
Commitment to Human Services Fund	$200	$0	($200)	-100%
Total	**$5,336**	**$4,743**	**($593)**	**-11.1%**

B. Healthcare Spending Cuts

A large portion of the Governor's proposed cuts to current year services in FY2016 are focused on healthcare, which would be cut by $871 million (11.9 percent) from FY2015 levels. The healthcare line item in Figure 12 is primarily made up of appropriations for Medicaid, the joint state and federally funded program that provides healthcare for poor, disabled, and low-income populations. Under Governor Rauner's proposed budget, the Illinois Department of Healthcare and Family Services (**HFS**), which administers Medicaid, would receive $6.32 billion in General Fund appropriations.[41, 42] That is $852 million less than General Fund appropriations for HFS in FY2015.[43]

Many of the Governor's proposed FY2016 Medicaid cuts were first introduced under the 2012 Save Medicaid Access and Resources Together (**SMART**) Act.[44] The SMART Act was intended to trim $1.6 billion from the state's Medicaid budget in FY2013, but ultimately only saved about $1.0 billion.[45, 46] The $600 million difference between estimated and actual savings materialized for several reasons. First, because Medicaid is a joint federal-state program, reductions in services proposed by a state have to be approved by the federal government. As it turned out, the Centers for Medicare and Medicaid Services (**CMS**), the federal agency that oversees all state Medicaid programs, denied approval of several requests by Illinois cut spending on specific services provided through Illinois' Medicaid program.[47] Second, many of the initiatives implemented under the SMART Act failed to generate the savings initially anticipated. For example, implementation of an eligibility check that eliminated ineligible persons from the Medicaid rolls was delayed, and a plan to save $30 million by reducing extended hospital stays was blocked by the Illinois Hospital Association.[48]

Another shortcoming of the SMART Act was that in some cases, savings from one program were offset by increased costs in another. For example, the SMART Act eliminated preventative dental care for adults, but it was later found that this provision was not cost effective because the savings gained by eliminating preventative dental care were more than offset by increased emergency care costs.[49,50] As a result, in June of 2014, Senate Bill 741 was passed by the General Assembly, restoring some of the programs and services initially cut under the SMART Act.[51]

The Governor's proposed budget seeks to re-implement many of these failed efforts to reduce costs under the SMART Act, hence it is likely that savings resulting from these proposed cuts, if any, will fall short of the $852 million estimated.

3.6 Under-appropriating Liabilities for the Group Health Insurance Program

The Group Health line item represents the vast majority of the state's payments for the State Employees' Group Health Insurance Program, which covers a variety of healthcare expenditures for current and retired state employees, including medical insurance, dental insurance, life insurance, and prescription drug coverage.[52] Both the Governor's and Democrats' FY2016 budgets appropriate $370 million less for Group Health in FY2016 than FY2015. However, this proposed year-to-year reduction is unlikely to generate any real savings for the state.

Consider that the total liability for healthcare provided by the State Employees' Group Health Insurance Program for FY2016 is estimated to be $2.8 billion (shown in Figure 14).[53] Ultimately, that liability is paid for from a number of revenue sources. In addition to General Funds, the Group Health liability is covered by members' contributions, the Road Fund, and public universities.[54] In general, however, more than 60 percent of the revenue for the program comes from the General Fund.[55] Hence, to realize $370 million in year-to-year savings, some combination of increasing transfers from non-General Fund sources, changing benefits for policy holders, and/or requiring increased contributions from public universities must occur. This is unlikely for a number of reasons.

For instance, significantly reducing benefits would have to be negotiated between the Rauner administration and the public sector employee union the American Federation of State, County & Municipal Employees (**AFSCME**).[56] Given that current contract negotiations with AFSCME are ongoing and have been extended through at least the end of September[57] (several months into FY2016), an agreement making such sweeping changes to the program to generate the amount of savings incorporated into both the Democrats' and Governor's FY2016 budget proposals is unlikely. Indeed, AFSCME has already taken a public stance against altering the program to dramatically increase the costs state employees pay for their healthcare.[58]

As such, the $370 million year-to-year cut to the Group Health line item proposed by both the Governor and Democrats does not mean the true liability for the program will be reduced. Instead, it simply means that both budget proposals would not appropriate enough money to cover the full liability, creating a backlog of unpaid bills that eventually will have to be paid. As such, rather than saving the state any money, this proposed underfunding of Group Health will create $768 million in unpaid bills, as shown in Figure 14.

Figure 14
FY2016 Group Health Costs: Liability Compared with General Fund Appropriation
($ Millions)

General Fund Appropriation	Total Revenue	Total Estimated Liability	Difference Between Revenue and Liability
$1,195	$2,036	$2,803	($768)

Source: COGFA, *FY2016 Liability of the State Employees' Group Health Insurance Program* (March 2015), 2.

4. THE FY2016 GENERAL FUND DEFICITS

Governor Rauner claims that his proposed FY2016 spending cuts will address decades of poor fiscal practices that have led to the state's accumulated General Fund deficit. However, despite the significant cuts to current year services it contains, the Governor's FY2016 General Fund budget proposal would actually increase the accumulated deficit. Under Governor Rauner's plan (excluding the proposed changes to Hard Costs), the General Fund deficit would grow by nearly $3.3 billion—from $5.9 billion in FY2015 to $9.2 billion in FY2016.

Figure 15
FY2016 Governor's Proposed General Fund Deficit Walk-Down ($ Billions)

Step	Revenue	$ Billions	Spending	$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue*	$31.65	FY2016 Hard Costs	$11.37[59]	$20.28
(ii)	Revenue After Hard Costs	$20.28	Estimated Accumulated Deficit Carry Forward from FY2015	$5.94	$14.34
(iii)	Projected Net FY2016General Fund Revenue Available for Services	$14.34	Projected Net General Fund Service Appropriations	$22.74	($8.40)
(iv)		($8.40)	Backlog of Group Health	$0.77	($9.17)
Projected Accumulated FY2016 General Fund Deficit		**($9.17)**			
Projected Deficit as a Percentage of General Fund Service Appropriations		**-40.3%**			

*Revenue for the Governor's proposal ($31.65 billion) is approximately $490 million less than the Democrats' proposal ($32.14 billion) for the following reasons: the Governor's proposed cuts in state spending on programs that are matched with federal funds (like Medicaid) would result in a loss of $1.1 billion in General Fund revenue; however, that loss is partially offset by the Governor's proposals to eliminate the Commitment to Human Services Fund and to shift $175 million of utility tax revenue that is currently deposited into four special state funds into the General Fund.[60]

Like the Governor's proposed budget, the Democrats' FY2016 spending plan fails to identify any new revenue to replace the loss in recurring, annual revenue caused by the phase down of the state's temporary income tax rate increases that became effective on January 1, 2015. Because the Democratic plan calls for fewer spending cuts than Governor Rauner's proposed budget, it would cause the General Fund deficit to grow even more. Under the Democrats' plan, the deficit is projected to grow by $4 billion, to an estimated $9.9 billion by the end of FY2016. Figure 16 shows a walk-down of the FY2016 General Fund deficit under the Democrats' proposal.

Figure 16
FY2016 Democrats' Proposed General Fund Deficit Walk-Down
($ Billions)

Step	Revenue	$ Billions	Spending	$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue*	$32.14	FY2016 Hard Costs	$11.37	$20.77
(ii)	Revenue After Hard Costs	$20.77	Estimated Accumulated Deficit Carry Forward from FY2015	$5.94	$14.83
(iii)	Projected Net FY2016 General Fund Revenue Available for Services	$14.83	Projected Net General Fund Service Appropriations	$24.00	($9.17)
(iv)		($9.17)	Backlog of Group Health	$0.77	($9.94)
Projected Accumulated FY2016 General Fund Deficit		**($9.94)**			
Projected Deficit as a Percentage of General Fund Service Appropriations		**-41.4%**			

*Revenue for the Governor's proposal ($31.65 billion) is approximately $490 million less than the Democrats' proposal ($32.14 billion) for the following reasons: the Governor's proposed cuts in state spending on programs that are matched with federal funds (like Medicaid) would result in a loss of $1.1 billion in General Fund revenue; however, that loss is partially offset by the Governor's proposals to eliminate the Commitment to Human Services Fund and to shift $175 million of utility tax revenue that is currently deposited into four special state funds into the General Fund.[61]

While Governor Rauner has repeatedly stated that difficult spending cuts such as those he has proposed are necessary to repair Illinois' fiscal condition, analysis of the two spending plans shows that cuts alone are insufficient to achieve this goal. The Democrats' budget cuts General Fund spending on current-year services by nearly $600 million compared to FY2015, while Rauner's budget would reduce appropriations by $1.85 billion. Despite these material spending cuts, it is projected that both proposals will actually increase the already-substantial General Fund deficit. As such, it is clear that additional revenue is needed for the state of Illinois to meet its obligations. As noted previously, even the Governor's budget director Tim Nuding acknowledges that the state's persistent budget issues have caused good public service programs to be suspended. To prevent more worthwhile programs from being suspended or permanently cut, the state must make the necessary reforms to collect adequate tax revenue.

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APPENDIX A: ENDNOTES

[1] Revenue loss of $4.6 billion calculated using actual FY2014 General Fund revenue and estimated FY2016 revenue. Sources: COGFA, *Senate Revenue Committee*: *FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update* (Springfield, IL: April 29, 2015); and COGFA, *State of Illinois Budget Summary Fiscal Year 2015* (Springfield, IL: August 2014), 25.

[2] Calculated by comparing estimated revenue ($32.049 billion) with FY2015 appropriations for current year services ($24.589 billion) plus FY2016 Hard Costs ($11.37 billion) plus the FY2015 accumulated deficit ($6.4 billion).

[3] Sources: GOMB's "Operating Budget Detail," February 2015, *Excel file*; and House Bill 3763 and Senate Bills 2030, 2033, and 2035 of the 99th General Assembly.

[4] 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

[5] Center for Tax and Budget Accountability, *Fact Sheet: The High Cost of Doing Nothing*, July 2014, http://ctbaonline.org/sites/default/files/reports/ctbaonline.org/file/ajax/field_report_file/und/form-nA1pL5l8IU1Drc5OmrC4tcyQnrsAjTkGUeN6O8dYRp0/1406230883/FS_2015.07_The%20High%20Cost%20of%20Doing%20Nothing_FY2015%20Budget.pdf

[6] Monique Garcia and John Byrne, "Rauner hits Quinn on tax hike timing," *Chicago Tribune*, September 29, 2014, http://www.chicagotribune.com/news/local/politics/chi-rauner-hits-quinn-on-tax-hike-timing-20140929-story.html

[7] The Associated Press, "Rauner on Illinois budget: It's worse than you thought," http://www.chicagobusiness.com/article/20141202/NEWS02/141209936/rauner-on-illinois-budget-its-worse-than-you-thought

[8] Paris Schutz, "Future of Daycare Program in Jeopardy," *Chicago Tonight*, http://chicagotonight.wttw.com/2014/12/23/future-day-care-program-jeopardy; Associated Press, "Money for Court Reporters may run out next month," *The State Journal-Register*, http://www.sj-r.com/article/20150208/NEWS/150209551

[9] Comparison of FY2015 revenue estimate in House Resolution-117 of the 98th General Assembly and COGFA, *FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update* (Springfield, IL: March 10, 2015).

[10] On the last day of FY2015, June 30, 2015, the Governor did elect to borrow $454 million from non-General Funds. State statute requires those funds be paid back within 18 months from the date they were borrowed, which would be the mid-point of FY2017. Since that $454 million is non-recurring revenue that has to be paid back it is not included in this Report's estimate of the accumulated FY2015 deficit. For information on the $454 million interfund borrowing see COGFA, *Monthly Briefing for the Month Ended: June 2015* (Springfield, IL: June 2015).

[11] COGFA, *FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update* (Springfield, IL: March 10, 2015), 23.

[12] COGFA, *Monthly Briefing for the Month Ended: June 2015* (Springfield, IL: June 2015), 5.

[13] FY2015 General Fund revenue shown excludes interfund borrowing and Budget Stabilization Fund transfer.

[14] Net of Refund Fund, Fund for Advancement of Education, and Commitment to Human Services Fund amounts.

[15] Net of Refund Fund amount.

[16] Figure is based on Governor's proposed budget for FY2016, which originally totaled $23.95 billion in General Fund spending. However, that $23.95 billion included $7.09 billion in proposed Early and K-12 Education General Fund spending. On May 24, 2015, Governor Rauner signed House Bill 3763 into law, which appropriates $6.54 billion for Early and K-12 Education. As such, his proposal has been revised downward by approximately $555 million to reflect this change.

[17] Figure calculated by comparing statutory transfers under Maintenance and Forecast 2016 in GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 2-23. The funds were identified by comparing FY2015 estimated transfers and FY2016 projected transfers in GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-52.

[18] Jon Hilkevitch, "CTA, Pace brace for Rauner's proposed $130 million cuts," *Chicago Tribune*, http://www.chicagotribune.com/news/local/breaking/ct-rauner-budget-transit-met-0219-20150218-story.html

[19] Illinois Department of Transportation, "Transit System," http://www.idot.illinois.gov/transportation-system/Network-Overview/transit-system/index

[20] Illinois Department of Transportation, *Transit System*, http://www.idot.illinois.gov/transportation-system/Network-Overview/transit-system/index

[21] CTBA estimate using the figure for LGDF in proposed budget ($634 million) and increasing in by 50 percent. The Governor's proposal to change is explained in http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/Budget%20Book%20FY16/FY2016General%20FundsTransferOutDetail.pdf

[22] *The Illinois Observer*, "Illinois Mayors Fight Rauner on $600 Million Cut to Cities," April 27, 2015, http://www.illinoisobserver.net/2015/04/27/illinois-mayors-fight-rauner-600-million-cut-cities/

[23]*The Illinois Observer*, "Illinois Mayors Fight Rauner on $600 Million Cut to Cities," April 27, 2015, http://www.illinoisobserver.net/2015/04/27/illinois-mayors-fight-rauner-600-million-cut-cities/

[24] Paris Schutz, "Rauner calls for Property tax Freeze," *Chicago Tonight*, http://chicagotonight.wttw.com/2015/06/03/rauner-calls-property-tax-freeze

[25] CTBA analysis of U.S. Department of Education, National Center on Education Statistics, 2015. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2011-2012 (Fiscal Year 2012)."

[26] Amanda Vinicky, "Comptroller Warns State Will Stop Paying If Impasse Continues," *WUIS, 91.9,* http://wuis.org/post/comptroller-warns-state-will-stop-paying-if-impasse-continues

[27] The $2.2 billion cut does not include the proposed cuts to the Teachers Retirement Insurance Program, College Insurance Program, and Chicago Teachers' Pension Fund, was is an additional $125 million in cuts.

[28] Bruce Rauner, "Rauner op-ed: I'm vetoing the budget, offering Chicago pension relief," *Chicago Tribune*, June 25, 2015, http://www.chicagotribune.com/news/opinion/commentary/ct-rauner-budget-veto-perspec-20150625-story.html
[29] In addition to the cuts shown in Figure 6, Governor Rauner also recommended an additional $125 million in cuts by eliminating the state's contributions to the Teachers Retirement Insurance Program, College Insurance Program, and Chicago Teachers' Pension Fund.

[30] Doug Finke, "Questions and answers about Gov. Rauner's newest pension reform proposal," *The State Journal-Register,* July 11, 2015, http://www.sj-r.com/article/20150711/NEWS/150719899/?Start=1

[31] An individual's ultimate pension benefit is determined using a formula that includes their years of service and their final average salary. The rules for determining final average salary vary from system-to-system; for individuals in SURS, for example, it is the greater of (a) the average of an individual's salary in four consecutive years; or, (b) the average of an individual's salary during the last four years of employment. Under the Governor's proposal, for individuals who choose to keep the current COLA, no future salary increases could be used to calculate the ultimate pension benefit. This would, in essence, mean that an individual's pension benefit would be based on the salary he or she had at the time he or she chose to keep the 3 percent, compounded COLA.

[32] Under this option instead of having the 3 percent compounded COLA, the COLA would not be compounded and it would be the lesser of 3 percent or ½ the rate of inflation (using the Consumer Price Index).

[33]Center for Tax and Budget Accountability, *Issue Brief: Shifting the Normal Cost & Employer "Pick-ups" for Teachers*, March 2012, http://ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1386539009/IB_2012.03.07_SHIFTING-THE-NORMAL-COST-EMPLOYER-PICK-UPS-FOR-TEACHERS.pdf. See also:

[34] For an overview of the incentive packages see Doug Finke, "Questions and answers about Gov. Rauner's newest pension reform proposal," *The State Journal-Register,* July 11, 2015, http://www.sj-r.com/article/20150711/NEWS/150719899/?Start=1

[35]*Doris Heaton et al., Appellees, v. Pat Quinn, Governor, State of Illinois, et al., Appellants*, 2015 IL 118585

[36] *Doris Heaton et al., Appellees, v. Pat Quinn, Governor, State of Illinois, et al., Appellants*, 2015 IL 118585; *Kanerva v. Weems,* 2014 IL 115811.

[37] In the budget proposal released in February of 2015, the Governor recommended eliminating two special state funds: the Commitment to Human Services Fund and the purpose of the Fund for the Advancement of Education. However, the bill signed into law that contains the education appropriations for FY2016 (HB 3763) also includes $446 million in appropriations from the Fund for the Advancement of Education for General State Aid for FY2016 (see Section 5 of Article 1). As such, this report assumes that the Governor is no longer recommending to eliminate the Fund for the Advancement of Education, but is still proposing to eliminate the Commitment to Human Services Fund.

[38] 35 ILCS 5/901

[39]30 ILCS 105/6z-86

[40] See Article 1, Section 5 of Public Act 99-5.

[41] CTBA analysis of Fiscal Year 2016 Proposed Budget (Operating Budget Detail), Governor's Office of Management and Budget

[42] Medicaid accounts for nearly all of the HFS budget

[43] CTBA analysis of Fiscal Year 2015 Proposed Budget (Operating Budget Detail), Governor's Office of Management and Budget

[44] Public Act 98-689.

[45] Illinois Department of Healthcare and Family Services, "SMART Act Implementation Report for Fiscal Year 2013," March 1, 2014, http://www2.illinois.gov/hfs/SiteCollectionDocuments/FY13SMARTActImplementationReport.pdf

[46] An earlier Status Report of the SMART Act estimated that savings would total $1.136 billion.

[47] Illinois Department of Healthcare and Family Services, "SMART Act Implementation Status Report, Senate Appropriation Committee Hearing (March 19, 2013)," http://www2.illinois.gov/hfs/SiteCollectionDocuments/SMARTActReport.pdf

[48] Associated Press, "Illinois Medicaid cuts fall short of projected savings, February 21, 2013, http://www.chicagobusiness.com/article/20130221/NEWS02/130229926/illinois-medicaid-cuts-fall-short-of-projected-savings

[49] Heartland Alliance for Human Needs & Human Rights, "Restoration of Adult Dental in the State's Medicaid Program," March 25, 2014, http://heartlandalliancepolicyadvocacy.issuelab.org/resource/restoration_of_adult_dental_in_the_states_medicaid_program

[50] Jamey Dunn, "Senate votes to restore Medicaid dental benefits," *Illinois Issues blog*, November 6, 2013, http://illinoisissuesblog.blogspot.com/2013/11/senate-votes-to-restore-medicaid-dental.html

[51] Illinois Department of Healthcare and Family Services, "OMNIBUS MEDICAID BILL - SENATE BILL 741, AS AMENDED BY HOUSE AMENDMENT #1," June 4, 2014, http://www2.illinois.gov/hfs/SiteCollectionDocuments/FY2015SB741.pdf

[52]Commission on Government Forecasting and Accountability, FY2016 Liabilities of the State Employees' Group Health Insurance Program, March 2015, http://cgfa.ilga.gov/Upload/FY2016GroupInsuranceReport.pdf, p. 2

[53] Commission on Government Forecasting and Accountability, *FY2016 Liabilities of the State Employees' Group Health Insurance Program*, p. 2

[54] Commission on Government Forecasting and Accountability, FY2016 Liabilities of the State Employees' Group Health Insurance Program, p. 7

[55] Commission on Government Forecasting and Accountability, FY2016 Liabilities of the State Employees' Group Health Insurance Program, p. 2

[56] GOMB, Illinois State Budget: Fiscal Year 2016 (Springfield, IL: February 18, 2015), CH. 2-18

[57] Rich Miller, "This just in..," *Capitol Fax*, July 29, 2015, http://capitolfax.com/2015/07/29/this-just-in-290/.

[58] AFSCME Council 31, "Bargaining Bulletin for State Employees," May 2015, http://files.sj-r.com/media/news/05212015AFSCMEbulletin.pdf?_ga=1.169414561.1427642979.1427735589

[59] The $11.37 million figure for hard costs is based on current law, not the cuts made in the Governor's proposed budget

[60] The proposal to eliminate the Commitment to Human Services Fund is discussed throughout this report. For discussion of the Governor's proposal regarding utility tax revenue see GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 2-23.

[61] The proposal to eliminate the Commitment to Human Services Fund is discussed throughout this report. For discussion of the Governor's proposal regarding utility tax revenue see GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 2-23.