VOICES FOR ILLINOIS CHILDREN

BUDGET & TAX POLICY INITIATIVE

POLICY BULLETIN

October 2011

UPDATE ON THE IMPACT OF NEW INCOME TAX REVENUE

The state income tax increase enacted last January was an essential step toward resolving the prolonged fiscal crisis in Illinois, but it was not a panacea.

The new revenue — an estimated $2.3 billion in FY 2011 and $7.4 billion in FY 2012 — enabled the state to stabilize its credit rating, reduce the backlog of unpaid bills, cover mandated pension contributions for FY 2012 without borrowing, and avert a full-scale fiscal meltdown.

The tax increase — together with significant spending cuts — has substantially improved the state's fiscal condition. Illinois has a projected General Funds balance of $360 million for FY 2012. At the same time, the state still has a carryover deficit of $4.6 billion from previous fiscal years, leaving a cumulative deficit of $4.2 billion. Without the new revenue, the cumulative deficit would be almost $14 billion — more than three times as large as the current projection.

New income tax revenue has dramatically reduced the budget deficit

Projected General Funds Deficit, FY 2012 (in $ billions)

With tax increase	
Fiscal year balance	+0.4 B
Carryover deficit from FY 2011	-4.6 B
Cumulative deficit	-4.2 B
Without tax increase	
Fiscal year balance	-7.0 B
Carryover deficit from FY 2011	-6.9 B
Cumulative deficit	-13.9 B

Source: Budget & Tax Policy Initiative, Voices for Illinois Children; based on revenue estimates from the Commission on Government Forecasting and Accountability.

In FY 2012, most of the new revenue from the income tax increase will be used to cover pension contributions financed through borrowing in FY 2011, as well as the loss of other temporary revenue sources such as proceeds from the sale of tobacco settlement bonds and enhanced federal Medicaid matching funds. The remaining backlog of unpaid bills, as well as other outstanding liabilities, must still be addressed.

Going forward, it's critical that policymakers adopt responsible budget solutions that reflect shared sacrifice and avoid further damaging cuts to services on which children, families, and communities rely. All reasonable options for maximizing existing state resources should be carefully considered.

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