



Issue Brief

Budget & Tax Policy Initiative



ENDGAME FOR THE FY 2009 BUDGET?

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Illinois has started a second straight fiscal year without a finalized budget. The story began on February 20, when the Governor presented his FY 2009 budget proposal, which stressed the need for capital funding and included important increases in education, child care, and other programs critical to the well-being of children and families.¹ The budget proposal contained a General Funds shortfall of \$1.7 billion and did not include specific measures for closing this deficit. On May 31, the General Assembly passed a number of appropriations bills that

provided even more funding for some education, human services, and health care programs.² However, revenue concerns remain as the legislature has not passed the necessary revenues to fund the budget. The Governor contends that spending in the approved budget is \$2 billion more than estimated revenues and has called a special legislative session for July 9 and 10 to pass revenue proposals to balance the budget. The Illinois Comptroller has stated that a budget agreement must be in place by July 10 to avoid state payroll delays.

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The Governor has outlined \$1.5 billion in new revenue measures, which have passed the Illinois Senate, as well as \$1.5 billion in spending cuts if revenue enhancements are not also passed by the Illinois House of Representatives. Revenue measures include transfers of surplus balances in special state funds (\$530 million), pension restructuring (\$400 million), and revenue proposals associated in part with the Illinois Works capital package (\$600 million) – which includes lease of the Illinois lottery and increased gambling. The list of possible spending reductions span the entire state budget, including cuts in education, health care, and social services, and would be especially harmful in these tough economic times. Still, with the budget reportedly \$2 billion in the red, even a \$1.5 billion solution (in increased revenues and/or decreased spending) would still leave a \$500 million gap. This issue brief will take a closer look at the proposed revenue enhancements, as well as the threatened spending cuts and what they mean for children and families in Illinois.

¹ Illinois State Budget Book Fiscal Year 2009
Illinois State Capital Budget Book Fiscal Year 2009
<http://www.state.il.us/budget/>

² Relevant budget bills include: Senate Bill 1115, Senate Amendment 1; Senate Bill 1129, Senate Amendment 1; House Bill 5701, Senate Amendment 2; and Senate Bill 1102, House Amendment 2.
For full text of these and other bills, visit: www.ilga.gov

Revenue Proposals

Fund transfers (“sweeps”). From FY 2004 through FY 2007, the General Assembly authorized the transfer of approximately \$1.3 billion of surplus money from state special purpose funds into the General Revenue Fund (GRF). The proposed FY 2009 legislation would allow the Governor to transfer up to \$530 million from state special funds to support GRF spending in FY 2009.³ The bill states that these transfers may only be used to pay Medicaid obligations, state obligations that secure federal funds, or obligations of the Illinois State Board of Education. Further, the bill states that no transfer may be made from a fund that would leave it unable to meet its FY 2009 estimated expenditures and, if that were to occur, the legislation would allow for the transfer to be reversed. The bill also prohibits transfers from 29 funds, including the Road Fund, public transportation funds, several veterans funds, the State Construction Account Fund, the Motor Fuel Tax Fund, and the State Pensions Fund.

Pension Restructuring. Because of low interest rates, policymakers are once again looking at the possibility of issuing pension obligation bonds to shore up the state’s retirement systems and save money over the long run. This year’s proposal authorizes the issuance of \$16 billion in pension obligation bonds, coupled with a restructuring of the state’s payment schedule.⁴ This restructuring is estimated to save the state billions of dollars in payments over the long term, but the amount of actual realized savings from these bonds depends on the rate of return earned on investments over the life of the bonds. Furthermore, paying the debt service on these bonds would increase pressures on the state’s General Funds. The \$16 billion infusion of cash into the state retirement system would dramatically improve the systems’ funded ratio of assets to liabilities. The restructuring would reduce the required payment for FY 2009, provide an even-growth funding plan from FY 2010 through FY 2038, and achieve an already established 90 percent funding-ratio target by FY 2038 (several years ahead of the current schedule).

Several years ago, the issuance of \$10 billion in bonds to meet the state’s pension payments for the last quarter of FY 2003 and all of FY 2004 provided \$2.16 billion in budget relief for the state’s General Funds. Additionally, bond proceeds added more than \$7 billion to retirement systems’ assets. Through the end of FY 2007, the investment performance of the funds for the retirement systems has been very good, but it remains to be seen what the return on investment will be over the life of the bonds.⁵ The state’s general obligation (GO) debt service payments have been increasing rapidly over the past several years and, as total GO debt service payments have been increasing, so too have transfers from the state’s General Funds to make these payments. The annual debt service payments on these pension obligation bonds will rise from \$545 million in FY 2009 to \$1.2 billion when they are paid off in FY 2033.⁶

Revenue Proposals related to Illinois Works. According to the Governor’s Office, a set of bills related to the “Illinois Works” capital program would generate an estimated \$600 million for the General Funds. This revenue would come from new tax and fee revenue as well as new capital

³ Senate Bill 790. <http://ilga.gov/legislation/95/SB/PDF/09500SB0790lv.pdf>

⁴ Senate Bill 788. <http://ilga.gov/legislation/95/SB/PDF/09500SB0788lv.pdf>

⁵ Illinois State Comptroller, “Pension Obligation Bonds: A Four-Year Review,” Fiscal Focus, April 2008. <http://www.ioc.state.il.us/library/index.cfm>

⁶ Commission on Government Forecasting and Accountability, “Fiscal Year 2008 Budget Summary of the state of Illinois” (January 2008). <http://www.ilga.gov/commission/cfga2006>

appropriations that would free up GRF spending.⁷ (Tax and fee revenues are estimated by the Governor's office to increase as the result of putting more people in the workforce and expansion of gambling). These bills include a proposal for the long-term lease of the Illinois Lottery to a private operator. The lease is expected to bring in \$10 billion with \$3 billion set-aside to maintain the annual lottery proceeds dedicated to PreK-12 education. The remaining \$7 billion would be used to fund pay-as-you-go capital projects, reducing the need for borrowing. Also included in the package of bills is a proposal for expanded gambling, with education to receive 30 percent of all new revenues. The gambling proposal would allow for a land-based casino in Chicago, a new riverboat casino, and expanded positions and slot machines at existing racetracks.

Proposed Spending Cuts

The Governor has stated that failure to increase revenues for FY 2009 will result in the following \$1.5 billion worth of spending reductions (though not all cuts have been detailed):

- Health care: \$600 million
- Social services: \$260 million
- Economic development and transit: \$255 million
- State government operations: \$130 million
- Education: \$110 million
- Seniors and veterans: \$106 million
- Public safety: \$26 million
- Environment: \$18 million

The list includes some particularly painful cuts affecting children and families, including reductions in child care services, aid for abused and neglected children, mental health programs, community social services, higher education, and juvenile justice efforts.

Child Care. The proposal has a \$30 million reduction for child care services, including freezing intake and turning away an estimated 3,000 children who would otherwise qualify for child care assistance. The cuts would also hamper efforts to increase subsidies for low-income working parents.

Services for Abused and Neglected Children. A \$40 million reduction would increase the number of children served by each caseworker, reduce funds for mental health screenings, and make it more difficult for foster parents to cover the costs of care.

Mental Health Services. Funding reductions of \$8.9 million, including a \$3 million cut for priorities of the Illinois Children's Mental Health Partnership, would mean that fewer children would have access to mental health programs. Providers would be forced to turn away thousands of clients because of insufficient capacity and services would not be expanded to rural and underserved areas. Additional cuts would eliminate long-overdue rate increases for direct care providers of many mental health and developmentally disabled services.

Community Social Services. Funding cuts of \$2 million would prevent expansion of school-based health centers to 20 additional schools. Another \$1.6 million cut would eliminate funding for a new program providing homeless youth with shelter, housing, and other services.

⁷ Relevant bills include: House Bill 6339; House Bill 1496; House Bill 2651; House Bill 4723; and House Bill 5618. For full text of these and other bills, visit: www.ilga.gov

Higher Education. An \$18 million reduction would eliminate new funding for the Monetary Award Program, resulting in 22,000 low-income students who will be unable to receive any state financial assistance to afford college and another 104,000 low-income students who will see no increase in their grants. The proposal also calls for \$10 million to be cut from the state's 39 community college districts. An additional \$22 million cut will eliminate grants for health services education for 10,000 students.

Juvenile Justice. A \$5.2 million cut would eliminate both new specialized staff to serve youth leaving the juvenile justice system and placements for youth leaving with mental health and substance abuse problems.

Conclusion

The proposed cuts would have a devastating effect on children and families in Illinois. It is essential that the Governor and General Assembly reach an agreement on a revenue plan to avert these spending cuts. Transferring *surplus* revenue from special funds to the General Revenue Fund is preferable to cutting vital programs — assuming that the transfers are implemented in accordance with the criteria in the proposal legislation.

Nonetheless, fund transfers are effective only as a short-term strategy and should not be used year after year. Pension obligation bonds would be secured by general tax revenues and

guaranteed by the full faith and credit of the state. The infusion of \$16 billion would immediately improve the condition of the state retirement system, and the debt service payments on the bonds would have to be made. Turning a soft liability into a hard liability may, however, put additional pressure on the state's General Funds due to increased debt service payments. Lastly, the plan for expanded gambling would not raise revenues fairly, as it would amount to regressive, "back door" taxation and exacerbate social problems with adverse impacts on children and families.⁸

Moreover, casino gambling is not a stable revenue source; in FY 2008, transfers to the General Funds from riverboats declined by \$120 million. Expansion of gambling is neither socially nor fiscally responsible.

Voices for Illinois Children has long supported reform of the state's revenue system to maintain and strengthen essential supports, while distributing responsibility among taxpayers as broadly and fairly as possible through a general tax increase and greater use of tax credits and exemptions. Reform of the state income tax remains the best option for providing fair and sustainable funding for critical state programs.⁹

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⁸ Voices for Illinois Children, "Beware the Quick Fix – Bet on Comprehensive Tax Reform," October 2004. <http://www.voices4kids.org/library/files/casino.pdf>

⁹ Voices for Illinois Children, "Generating New Revenue, Improving Tax Fairness: A Policy Strategy for Income Tax Reform in Illinois," June 2007. http://www.voices4kids.org/library/files/BT07_incometax.pdf

This issue brief was prepared as part of the Budget & Tax Policy Initiative at Voices for Illinois Children. To promote discussion of the information and analysis presented here, we invite readers to make copies of the report and to disseminate it. For more information, please contact Maneesha Date Jacoby at mdate@voices4kids.org or 312-516-5568.

About Voices for Illinois Children

Voices for Illinois Children works across all issue areas to improve the lives of children of all ages throughout the state, making sure they grow up healthy, nurtured, safe and well educated. For 20 years, Voices has been helping opinion leaders and policymakers understand the issues facing children and families. The Voices network weaves through the state, involving community leaders and people who care passionately about children. As a privately funded organization, Voices has ensured earlier investments in children and has improved education, health care and other vital services. Jerome Stermer is President of Voices for Illinois Children, and Craig R. Culbertson is Chair of the Board of Directors.

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative provides information and analysis to advocates and policymakers on a wide range of spending and revenue topics that have direct impact on the lives of children and families in Illinois. The Initiative helps Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul. The Budget & Tax Policy Initiative is funded by the Ford Foundation, Annie E. Casey Foundation, and the Chicago Community Trust. We thank them for their support but note that the findings and conclusions presented here are those of Voices for Illinois Children alone and do not necessarily reflect the views of these foundations. Larry Joseph, Ph.D. is Director of the Budget & Tax Policy Initiative.

Voices is a member of the State Fiscal Analysis Initiative (SFAI) whose members seek to broaden the debate on budget and tax policy through public education and the encouragement of civic engagement on these issues. The SFAI network is coordinated by the Center on Budget and Policy Priorities, a Washington, D.C.-based research and strategic policy institute that works on a range of federal and state issues. Voices is also a member of the Economic Analysis and Research Network (EARN), coordinated by the Economic Policy Institute, a Washington, D.C.-based think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy.



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