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ILLINOIS FY2013 GENERAL FUND ENACTED BUDGET ANALYSIS

(Signed by Governor Quinn, June 30, 2012)

August 2, 2012

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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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1. INTRODUCTION

The state's Fiscal Year 2013 General Fund Budget promised to be unique for a number of reasons. First, the Governor and House of Representatives made two very different spending proposals, based on different estimates of how much revenue would be available to spend. In both instances, the House proposals were more penurious than the Governor's. Indeed, the House proposed spending a maximum of $23.458 billion on public services in FY2013, which was $867 million less than the Governor's spending proposal. As it turned out—and as CTBA predicted in its analysis of the two spending proposals issued in April 2012[1] (the **April Analysis**)—the FY2013 General Fund budget enacted into law, as modified by certain line-item vetoes and reduction actions made by the Governor which still await legislation approval[2] (the **FY2013 Enacted Budget**) closely follows the House proposal, by appropriating a maximum of $23.539 billion to public services. This is just $81 million more than the House's initial spending proposal and fully $786 million less than the Governor's.

Second, this is the first year that total expenditures under the General Fund were made subject to a hard cap. This cap will last for the three consecutive fiscal years of FY2013, FY2014 and FY2015, and was established under the Taxpayer Accountability and Budget Stabilization Act (P.A. 96-1496) that passed in January, 2011 (**TABSA**).[3] The items subject to the caps established under TABSA (**Capped Items**) include spending on: (i) all current public services (such as education, healthcare, human services, environmental protection and public safety) covered by the General Fund; (ii) all "Statutory Transfers Out" of the General Fund for hard costs over which the General Assembly and Governor have little to no authority to change (primarily items such as debt service owed to bond holders, and payments to local governments under the Local Government Distributive Fund); and (iii) all amounts owed to the five public pension systems (both actual employer cost owed to fund benefits ($1.58 billion in FY2013) and debt service owed ($3.51 billion in FY2013) to repay the amounts which were, for decades, diverted from pension contributions to subsidize the cost of current service delivery.

Third, the Budgeting for Results Act (**BFR**) became fully effective for the first time in FY2013.[4] Budgeting for Results implemented a number of changes from prior budget practices. (For a more complete discussion of Budgeting for Results, please see CTBA's review of the proposed FY2013 budget in the April Analysis and available at www.ctbaonline.org.) Key among these changes is the new Budgeting for Results requirement that appropriations for services be reported not just by department and agency as in the past, but also by major category of service being rendered. The seven service categories the Governor established under Budgeting for Results are Education, Healthcare, Human Services, Public Safety, Economic Development, Quality of Life and Government Services. This report provides some historic spending comparisons which were adjusted to account for the new Budgeting for Results regime.

While the preceding developments are somewhat novel, the many fiscal problems that continue to plague the state's General Fund Budget in FY2013 are not. These problems include a significant, accumulated deficit in excess of $8 billion which prevents the state from investing adequately in basic core services like educating children or caring for individuals with mental health concerns or developmental disabilities, and an ongoing structural imbalance between General Fund revenue growth on the one hand and service cost growth on the other—which will only get worse once the temporary tax increase passed in January, 2011 begins to phase out in FY2015.[5]

Making the January, 2011 tax increases temporary would have been an appropriate way to address the state's fiscal woes if in fact those woes were mostly caused by the Great Recession, which began in December, 2007 and continued through June, 2009. Unfortunately, Illinois' fiscal problems are primarily the result of long-term, structural flaws in the state's tax system which the Great Recession certainly exacerbated, but did not cause. So, while the temporary tax increases of 2011 helped mitigate Illinois' fiscal woes for a few years, the state's structural fiscal problems remain unresolved—and when the temporary tax increase begins to phase out, deterioration of the state's fiscal condition will accelerate.

2. HIGHLIGHTS OF THE ILLINOIS FY 2013 ENACTED GENERAL FUNDS OPERATIONS BUDGET

Various changes the Governor made to the FY2013 budget through line-item veto and reduction actions require legislative approval during the fall veto session of the General Assembly. However, as it stands as of August, 2012, the FY2013 Enacted Budget signed by Governor Pat Quinn on Saturday, June 30 will spend a total of $33.7 billion, which is less in nominal dollars than Illinois General Fund spending was in FY2009, as shown in Figure 1. After adjusting for inflation and population growth, the FY2013 Enacted Budget reduces spending on services by 8.7% from FY2009 levels in real terms.[6]

FIGURE 1
Illinois Total General Funds Comparison
of FY2009 and FY2013 Expenditures

Fiscal Y ear	FY2009 Actual	FY2013 Enacted Budget
Total Spending on Services and Transfers Out	$32,959	$32,916
Paydown of Prior Year's Past Due Bills	$0	$ 800
Total	$32,959	$33,716

Following are some highlights of the FY2013 Enacted Budget:

- Total General Fund appropriations for public services in the FY2013 Enacted Budget will be $822 million less than in FY2012 in nominal non-inflation adjusted dollars.
- Except for Medicaid, which is flat funded, the appropriations for all public services by major category will be less in nominal non-inflation adjusted dollars in FY2013 than they were in FY2012.
- The spending cuts implemented in FY2013 continue a trend of cutting the state's investment in public services since FY2000. Indeed, after adjusting for inflation and population growth, General Fund appropriations for all public services will be lower in FY2013 than FY2000 by the following percentages:

-PreK through12th Grade	-12.35% less
-Higher Education	-40.28% less
-Healthcare (including Medicaid but excluding Group Health)	-23.3% less
-Human Services	-32.98% less
-Public Safety	-22.82% less

- In FY2013, PreK-12 funding will be cut by just over $208 million in real terms from FY2012 levels. Actual spending on PreK-12 education in FY2013 will in any event be less than what is in the FY2013 Enacted Budget. This is because the Governor's Office of Management and Budget has already informed the Illinois State Board of Education that the formula portion of general state aid to school districts will be "prorated"—meaning, not funded at 100 percent of its stated level—in FY2013. It is hard to justify these cuts to public education, given how clearly the data demonstrate General Fund spending on education is inadequate, whether considered under national or the state's own standards.
- Nationally, Illinois ranks last among the states in the portion of education funding covered by state rather than local resources according to the National Center for Education Statistics. Moreover, according to the National Association of State Budget Officers, when both state and local contributions to school funding are considered, Illinois ranks 40th in per capita education spending, despite having the 15th highest per capita income.
- Now consider the state's own standards. The nonpartisan Education Funding Advisory Board is required by law to recommend a "Foundation Level" of per pupil spending that is sufficient to cover the cost of an adequate PreK-12 education. The Foundation Level is supposed to include most of the basic costs of educating a "non-at-risk" child, that is, a child with a reasonable likelihood of academic success who does not live in poverty, is not an English Language Learner and does not have special needs. The Foundation Level does not include the cost of significant items, like transportation, special education, and educating children who are English language learners or live in poverty.
- The funding cuts for PreK-12 under the FY2013 Enacted Budget will further diminish the quality of public education in Illinois. In FY2003, the state's actual Foundation Level was $120 less per child than the EFAB recommendation tied to the actual, base cost of educating a non-at-risk child. By FY2013, the state's actual Foundation Level will be at least $2,207 less than the EFAB recommendation.
- Over the FY2002 through FY2013 sequence, the cumulative, real, inflation-adjusted impact of General Fund cuts to Human Services programs has been $8.5 billion. Using multipliers developed by Mark Zandi the chief economic at Moodys.com, total job loss over that period attributable to these spending cuts likely exceeded 117,270.

- The General Fund will end FY2013 with an accumulated deficit of at least $8.14 billion. Since hard costs like debt payments and statutory transfers out must be paid, the full, accumulated FY2013 General Fund deficit affects solely that portion of the General Fund budget ($23.54 billion) appropriated for delivery of current services in FY2013, like Education, Healthcare, Human Services and Public Safety. The $8.14 billion deficit represents 34.6 percent of the General Fund spending on services in FY2013.
- Although the state's contribution to its five pension systems of $5.09 billion in FY2013 is scheduled to be 23 percent greater than the $4.135 billion contribution for FY2012, none of this increase is due to benefits payable under the pension plans. Instead, the year-to-year increase is driven entirely by the schedule established for repaying the debt the state owes to its pension systems after decades of borrowing against those systems to subsidize the cost of delivering public services in prior years. While this practice benefited taxpayers by reducing the cost of public services consumed in the past, the schedule for repayment of this debt is straining current fiscal resources.
- The state's Medicaid program has not contributed to the growth in the General Fund budget deficit. Indeed, use of state own-source tax revenue to fund Illinois' Medicaid program will be less in FY2013 than in FY2007. This means the state's Medicaid program has freed up millions in state own-source tax revenue to fund other services.
- Based on the Governor's three-year projections issued under the new *Budgeting for Results* legislation, the trend of cutting core services can be expected to continue into the future. Indeed, after accounting for inflation, by FY2015 spending on: (i) P-12 will be -7.5 percent less than FY2012; (ii) Higher Ed -4.9 percent less; (iii) Human Services -7.2 percent less; (iv) Healthcare -14.1 percent less; and (v) Public Safety -16.7 percent less.
- Even assuming Illinois can continue making significant, real, inflation-adjusted cuts in spending to all services covered by the General Fund in FY2014 and FY2015, the structural deficit in the General Fund will worsen into the foreseeable future unless the state implements comprehensive tax reform that raises adequate revenue to sustain public services, modernizes the tax system and imposes taxes more fairly.

3. REVENUE ESTIMATES

Initially, the Governor and House of Representatives issued two different revenue estimates for the FY2013 General Fund. The House estimate of $33.719 billion was $221 million less than the Governor's $33.94 billion estimate. As CTBA predicted in its April Analysis of the two main budget proposals offered for FY2013, the revenue estimate upon which the FY2013 Enacted General Fund Budget was based were taken from House Resolution 707, as shown in Figure 2 below.

FIGURE 2
FY2013 Enacted Budget Revenue Estimates
($ Millions)

	General Assembly Resolutions
Personal Income Tax	$15,140
Corporate Income Tax	$2,504
Sales Tax	$7,335
Other Taxes, Fees and Interest Income	$3,005
Transfers In (Primarily Lottery and Gaming)	$1,800
Total State Sources	$29,784
Federal Sources	$3,935
Total General Fund Revenue	$33,719

Sources: FY2013 GOMB Budget Book, Ch. 2-63; Amendment No. 1 to HR707 adopted March 1, 2012, Senate Floor Amendment No. 1 to SR586 adopted March 7, 2012, June 2012 communications with Legislative and GOMB staff.

4. FY2013 ENACTED APPROPRIATIONS FOR PUBLIC SERVICES

Figure 3 shows the FY2013 Enacted Budget appropriations by major service category, which closely follows the spending plan initially detailed by the House of Representatives in House Resolution 706 (Enrolled), which passed on March 29, 2012 (**House Proposal**). Under that proposal, a total of $23.458 billion would have been spent on current services in FY2013, while the FY2013 enacted budget will spend $23.539 billion, or $81 million more than the initial House Proposal. Note that the FY2013 Enacted Budget will spend $786 million less on services than what the Governor proposed in April.

FIGURE 3
FY2013 Enacted General Fund Appropriations
($ Millions)

Category		Appropriation Amount
(i)	Total General Fund Appropriations for Capped Items	$33,716
(ii)	Total Hard Costs	$9,320
	Debt Service (Pension & Capital Bonds)	$2,168
	Other Statutory Transfers Out (including $151 million for FY 2013 Medicaid bill repayment)	$2,052
	Pension Contributions	$5,099
(iii)	Repayment of Bills	$800
	Medicaid	$500*
	Backlog of Other Unpaid Bills from 2012	$300
(iv)	General Fund Services Approps Gross	$24,189
	Pre K-12	$6,542
	Higher Education	$1,980
	Medicaid (FY2013 Services)	$6,639
	Human Services	$5,086
	Public Safety	$1,606
	Group Health Insurance	$1,171
	Other	$1,165
(v)	Unspent Appropriations	$650
(vi)	Net General Fund Service Approps for FY2013	$23,539

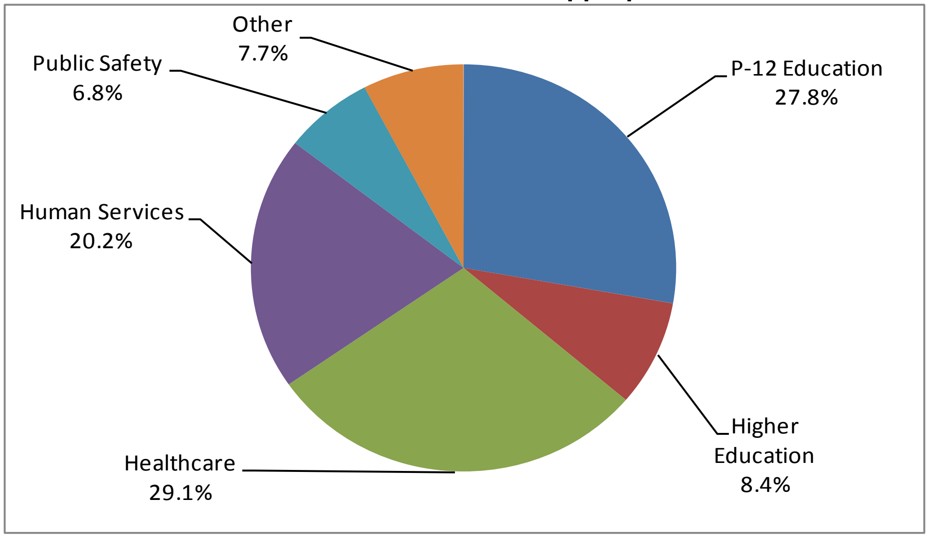
Sources: HR706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff.

*Note that the amount shown in HR706 for the repayment in FY2013 of Medicaid bills left over from FY2012 is $1 billion, not the $500 million identified in Figure 3 above. CTBA reports the repayment this way because only $500 million in General Fund revenue will be used to pay that backlog. The remaining $500 million will come from Medicaid matching funds the federal government will transfer to Illinois, bringing the total payment up to the $1 billion for past due bills indicated in HR706.

The FY2013 Enacted Budget appropriations in Figure 3 have been passed, but have not been fully implemented. That will not occur until the budget implementation bill that authorizes the Transfers-Out described in Figure 3 is passed.

Also note that there is a $650 million line item for "Unspent Appropriations" in the FY2013 Enacted Budget. This means that appropriation amounts identified for any specific program in the FY2013 Enacted Budget are maximum potential appropriations, which collectively will be reduced by $650 million over the course of the Fiscal Year. Since the "Hard Costs" identified in Figure 3 have to be paid by law, all spending cuts associated with the "Unspent Appropriation" line will have to come from the public service categories listed under item (iv) in Figure 3, which are subject to the discretionary appropriation authority of the General Assembly and Governor.

FIGURE 4
FY 2013 Enacted Budget
Net General Funds Services Appropriations



Sources: FY2013 Budget as passed in HR706, SB2348, SB2413, SB2443, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff - see notes for Figure 6 below.

5. Nominal Dollar (without adjusting for inflation) Comparison of FY2013 Enacted Budget to FY2012.

Figure 5 shows how the enacted appropriations for public services in FY2013 compare to FY2012 in nominal dollars year-to-year. In the FY2013 Enacted Budget, spending for services are either cut from or remain constant in nominal dollars with FY2012 appropriations.

FIGURE 5
FY2013 Enacted General Fund Appropriations
Compared to FY2012 Final – Nominal Dollars ($ Millions)

Category	FY2012 Final — After Vetoes and Supplementals	FY2013 Enacted	$ Diff	% Change
PreK-12 Education	$6,751	$6,542	($210)	-3.10%
Higher Education	$2,092	$1,980	($113)	-5.38%
Medicaid	$6,639	$6,639	$0	0.00%
Group Health	$1,436	$1,171	($265)	-18.43%
Human Services	$5,286	$5,086	($200)	-3.79%
Public Safety	$1,715	$1,606	($109)	-6.36%
General Services	$1,242	$1,165	($77)	-6.20%
Unspent	($802)	($650)	$152	18.95%
Total Net Public Services	$24,359	$23,539	($822)	-3.37%

Sources: HR706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff. Categories follow House Committee jurisdictions as noted in text.

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 or "**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 includes changes in the cost of everything from pop tarts and hair care products to uranium ore and bowling. It should be noted 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 or "**ECI**". As the name implies, the ECI is more narrow 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, police officers, social workers and other civil servants who actually 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.

The way inflation adjustments work over time is easy. 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 three dollar increase in nominal appropriations, in real, inflation-adjusted terms, spending was actually cut by two dollars.

6. FY2013 General Fund Enacted Budget Continues the Trend of Cutting Every Major Category of Public Services Going Back to FY2000.

Figure 6 shows how spending under the General Fund in FY2013 Enacted Budget compares to FY2000, in both nominal and real, inflation-adjusted terms.

FIGURE 6
Illinois General Fund Spending by Major Public Service Category, FY2013 Enacted Budget Compared to FY2000 Enacted, and FY2000 Adjusted for Inflation and Population Growth ($ Millions)

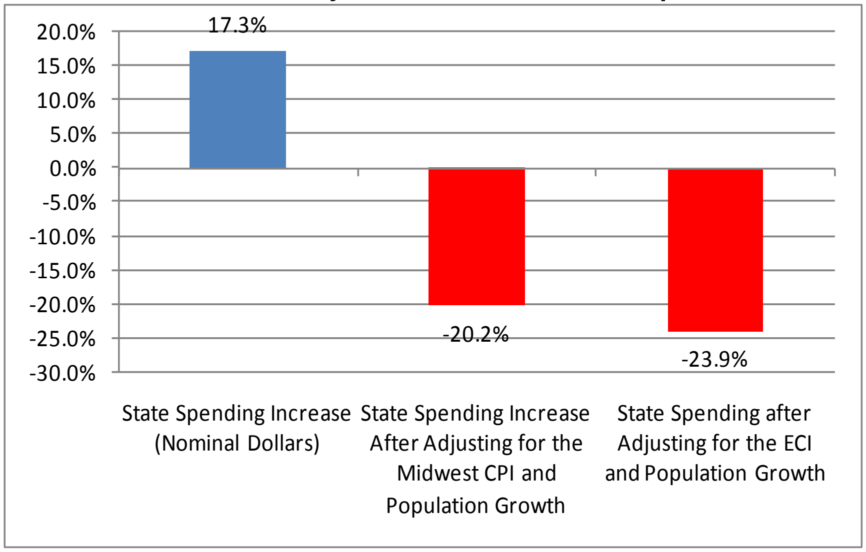
Category	FY2000 Enacted	FY2013 Enacted	Nominal % Change	FY2000, Enacted Adj for Infl (ECI) & Pop Growth	$ Diff FY2013 – FY2000 Adj (ECI & Pop Growth)	% Change
Net Public Services excluding Pensions and Group Health	$20,064	$23,539	17.3%	$30,915	-$7,376	-23.86%
P-12	$4,844	$6,542	35.1%	$7,464	-$922	-12.35%
Higher Ed	$2,152	$1,980	-8.0%	$3,315	-$1,335	-40.28%
Healthcare (excluding Group Health)	$5,022	$6,852	36.4%	$8,934	-$2,082	-23.30%
Human Services (excluding all Healthcare)	$4,599	$4,749	3.3%	$7,086	-$2,337	-32.98%
Public Safety	$1,350	$1,606	18.9%	$2,081	-$475	-22.82%

Sources: FY 2013 Budget as passed in HR 706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB 2332, SB2378, SB2409, and June 2012 Communications with Legislative staff.

An estimate of the itemized appropriation for "Other Healthcare" (DPH and DHFS administrative costs and child support services) based on the $213 million appropriation for DHFS net of Medicare and DPH in SB2454 is added to the Enacted FY 2013 Medicaid appropriation to estimate the FY 2013 Enacted "Healthcare" appropriation in Figure 5. Similarly, the $337 million difference between the FY 2013 Enacted Human Service Budget by House Jurisdiction and the FY 2013 Human Service Budget for the three major human service agencies (see Figure 3 above and Figure 14 below) is subtracted from the House Proposal's Human Services appropriation to obtain the House's Human Services only (three major agencies) appropriation.

Figure 7 shows that after adjusting for inflation and population growth using either the CPI or ECI, spending on services under the FY2013 Enacted Budget will be lower in real terms than FY2000 levels.

Figure 7
FY2013 Enacted General Fund Services Appropriations (Excluding Group Health and Pensions) Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth



Sources:FY 2013 Budget as passed in HR 706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB 2332, SB2378, SB2409, and June 2012 Communications with Legislative staff; Bureau of Labor Statistics: Employment Cost Index, Midwest CPI, Midwest Medical Care CPI; Department of Commerce and Economic Opportunity.

7. Illinois' FY2013 Operating and Ongoing Structural Deficits

The FY2013 Enacted Budget shows that the state's fiscal health remains in serious doubt. As shown in Figure 8, even after accounting for the new revenue from the temporary tax increases that passed in January, 2011, and the General Fund spending cuts of approximately $263 million implemented in FY2012,[7] the state will nonetheless have a minimum, accumulated General Fund deficit of about $8.1 billion in FY2013 once the unpaid bills left over from FY2012 are considered. Obviously, Illinois continues to struggle with a material unpaid bill backlog, which last year CTBA estimated would be at least $8 billion at the end of FY2013, despite both significant spending cuts and the temporary tax increases which were implemented over the last few fiscal years.

FIGURE 8
FY2013 Accumulated Deficit ($ Billions)

Category		FY 2013 Actual
(i)	Projected FY2013 Revenue	$33.72
(ii)	FY2013 Hard Costs	$9.32
(iii)	Deficit Carry Forward from FY 2012	$9.00
(iv)	Net FY2013 General Fund Revenue Available for Services	$15.40
(v)	General Fund Service Appropriations in Enacted G.F. Budget (Net of "Unspent Appropriations")	$23.54
(vi)	Minimum FY2013 General Fund Deficit	($8.14)
(vii)	Deficit as a Percentage of General Fund Service Approps	**-34.6%**

Sources: FY2013 Budget as passed in HR706, SB2348, SB2413, SB2443, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff; Revenue from Amendment No. 1 to HR707 adopted March 1, 2012, and Senate Floor Amendment No. 1 to SR 586 adopted March 7, 2012; and unpaid bills from April 2012 Quarterly Report from the Comptroller.

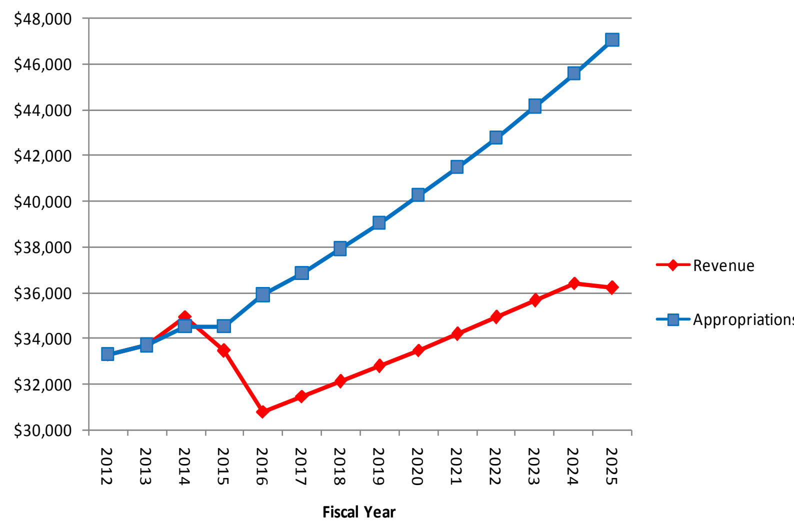
(a) Accumulated Deficit. Figure 8 shows only the minimum, accumulated deficit for FY2013 for two key reasons. First, the FY2013 Enacted Budget assumes that Group Health Insurance costs will be reduced by $260 million from FY2012 levels. This may be difficult to attain, given that the average annual increase in healthcare inflation over the last decade was 4.1 percent.[8]

Second, Figure 8 assumes that the $1.6 billion in Medicaid service, patient fee increases, and provider reimbursement rate reductions, and $1.1 billion in additional revenue to pay past Medicaid bills are fully realized.This also may be difficult to attain since Illinois already has some of the lowest Medicaid provider reimbursement rates in the nation, ranking ninth lowest of all 50 states,[9] and must receive federal approval for a number of the proposed Medicaid service cuts which the state is counting on for savings.[10] See Section 8(e) of this Report for a more detailed analysis of Medicaid changes implemented in FY2013.

(b) Illinois' Structural Deficit. For over a decade CTBA has pointed out that the Illinois tax system does not generate enough General Fund revenue over time to maintain delivery of the same level of public services from year to year.[11] This remains the case in FY2013, even after the temporary tax increases passed in January, 2011.

This ongoing mismatch in the state's General Fund between the lower rate of growth for revenues than the rate of increase in the cost of maintaining service levels from year to year is commonly called a "structural deficit." Figure 9 is a graphic depiction of the structural deficit in the Illinois General Fund.

FIGURE 9
Illinois State General Fund Structural Deficit ($ Millions)



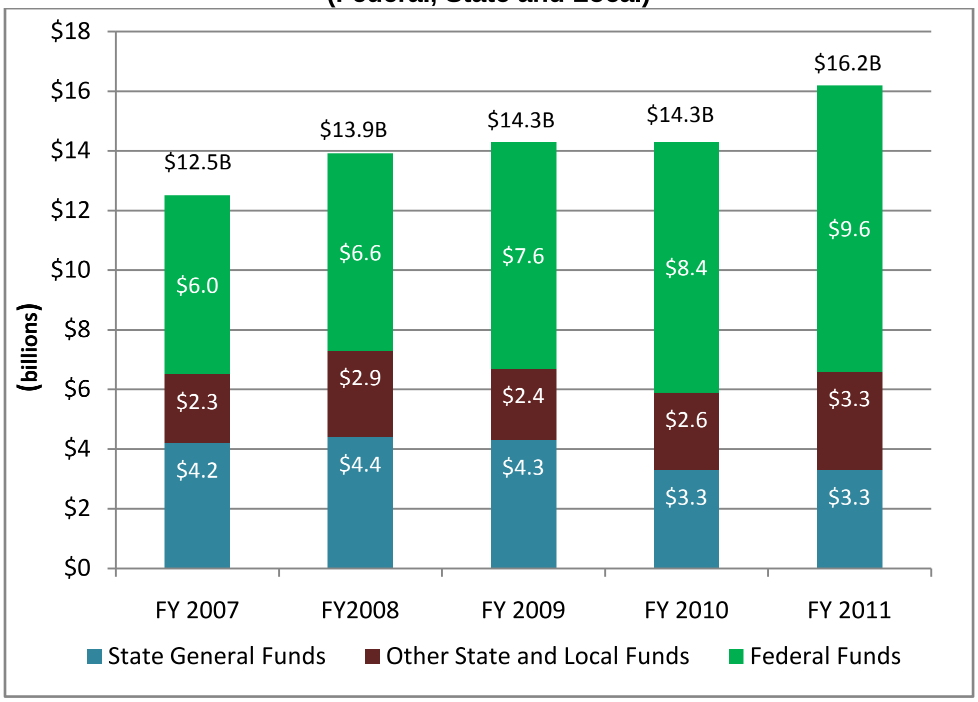
The structural deficit depicted in Figure 9: (i) assumes that enacted revenues and appropriations for FY2012 and FY2013[12] will be fully realized; and (ii) uses the revenue estimates for FY2014 and FY2015 made in the Governor's three-year budget projection.[13] Recall that in the Governor's three-year projection: General Fund spending in nominal dollars on Healthcare and Education remain flat over the next two fiscal years, and spending on Human Services and Public Safety are cut by 5.1 percent and 8 percent respectively from FY2012 levels. Figure 8 also assumes that the state maintains constant spending on services in real terms through FY2025, meaning that no new programs are added and no existing programs are expanded. Instead, public spending on the core services of: (i) Education (Pre K-Higher Ed), Human Services and Public Safety over this period increases solely to account for inflation—computed at the average, annual ECI of 2.9 percent from 2002-2012—and projected average annual population growth of 0.8 percent; and (ii) Healthcare increases solely to account for inflation—computed at the average, annual Midwest Medical CPI that pertained over the last decade of four percent.

On the revenue side, Figure 9 assumes: (i) the currently legislated phase-out (in 2015 and 2025) of the increases in the Individual and Corporate Income tax rates that passed in January, 2011, will be implemented; (ii) that annual state "own-source revenue" growth will average 2.4 percent over the period, based on the historic, FY2002 to FY2009, "trough to trough" rate;"[14] and (iii) that annual increases in Federal Funding will average 0.9 percent over the period, based on the most recent COGFA data.[15]

The takeaway from Figure 8 is both clear and troubling—even assuming Illinois can continue making significant, real, inflation-adjusted cuts in spending to all services covered by the General Fund in FY2014 and FY2015, the structural deficit in the General Fund will worsen nonetheless.

Moreover, although Medicaid spending has been significantly cut in the FY2013 Enacted Budget —**NONE OF THE STRUCTURAL DEFICIT GROWTH IN ILLINOIS OVER THE PAST FIVE YEARS WAS DUE TO INCREASING STATE MEDICAID PAYMENTS**. Indeed, as Figure 10 shows, state own-source tax revenue used to fund Medicaid in 2011 was almost $1 billion less than in FY2007. In other words, since 2007, the state's Medicaid programs freed up almost $1 billion in state tax revenue for funding other core services. Far from "crowding out" other spending priorities, Medicaid has subsidized them.

FIGURE 10
Medicaid Spending by Funding Source
(Federal, State and Local)



Source: National Association of State Budget Officers State Expenditure Report, 2010, released December 13, 2011, Pg. 47, Table 28.

The reason for this is the way the State of Illinois has used innovative initiatives, like the Hospital Provider Assessment[16] and intergovernmental transfers with local governments like Cook County, to increase the portion of the Medicaid program paid for by the federal government. Ignore FY2011, when the federal government increased Illinois' Medicaid matching rate from 50 percent to 61.88 percent under the federal stimulus.[17] In FY2010, of the total $14.3 billion Illinois spent on Medicaid, only $3.3 billion, or 21 percent, was from state, own-source tax revenue, while $8.4 billion or 58.7 percent was covered with federal revenue. This was less than the $4.2 billion or 33.6 percent of Medicaid expenditures covered with state own-source tax revenue in FY2007.

(c) Looking Forward. The state's structural deficit as outlined in Figure 9, together with the Governor's three-year spending projection that goes through FY2015, raise a number of concerns about the state's capacity to continue funding core services into the future. Figure 11 highlights how much each of the core public service areas stand to be cut from FY2012 levels in real terms by FY2015.

FIGURE 11
Projected Real General Fund Spending Cuts to the Core Service Areas under The Governor's Three-Year Projections for the FY2012 – FY2015 Sequence ($ Billions)

Category	FY2012 Enacted	FY2012 Infl & Pop Adj to FY2015	Governor's FY2015 Projected Approp	% Change	$ Diff
PreK-12	$6.75	$7.33	$6.78	-7.5%	-0.55
Higher Education	$2.09	$2.27	$2.16	-4.9%	-0.11
Human Services (Net of all Health Care)	$5.02	$5.45	$5.06	-7.2%	-0.39
Health Care Total	$8.34	$9.38	$8.06	-14.1%	-1.32
Medicaid	$6.64	$7.47	$6.64	-11.1%	-0.83
Group Health	$1.44	$1.62	$1.17	-27.7%	-0.45
Other	$1.38	$1.50	$1.25	-16.6%	-0.25
Public Safety	$1.71	$1.85	$1.51	-18.4%	-0.34

Note: Governor's Projected FY2015 is equal to Governor's Proposed FY2013 based on GOMB flat three-year projected budget. Categories based on House Committees.

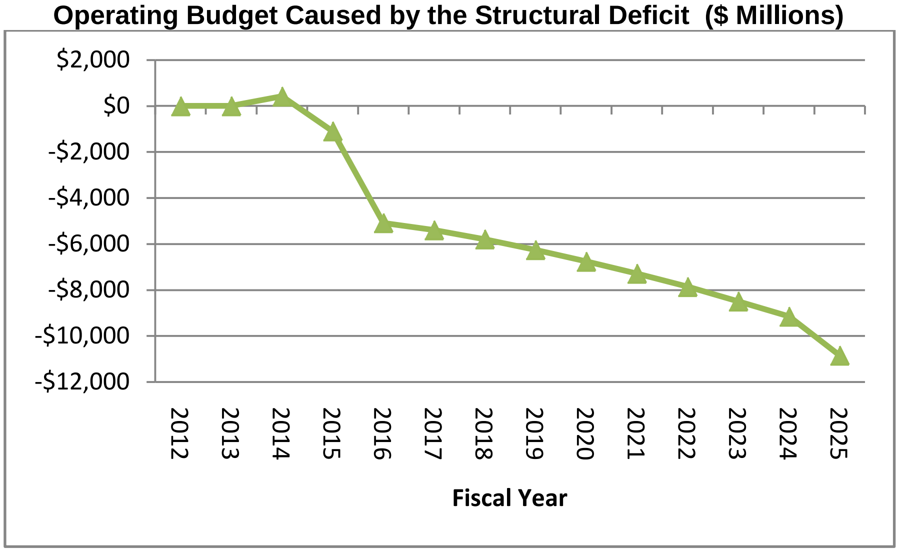
Consider, for instance, the minimum potential impact on human services funding. If average annual inflation (using the ECI) and population continue to grow at the same rates as over the last decade (2002-2012), a decade of incredibly low growth in inflation, then in real terms FY2015 General Fund spending on Human Services will be at least -7.2 percent lower than it was just three years previously, in FY2012.

In FY2015, Public Safety will fare even worse, facing a -18.4 percent real cut from FY2012 levels, while real spending on PreK-12 Education would be cut by -7.5 percent from FY2012. Meanwhile, spending on Higher Education stands to be $111 million or -4.9 percent less in FY2015 than in FY2012. Similarly, based on historic (FY2002 to FY2012) annual growth of 4.0 percent in the Midwest Medical CPI and Department of Community and Economic Opportunity projected 0.8 percent annual population growth, real Healthcare spending in FY2015 will be cut by -14.1 percent from FY2012 levels.

As shown in Figure 12, despite the very large nominal and real cuts in state spending projected by the Governor through FY2015, and assuming no real increases in spending on any core service, the state will nonetheless have an estimated operating deficit of almost $11 billion by FY2025.

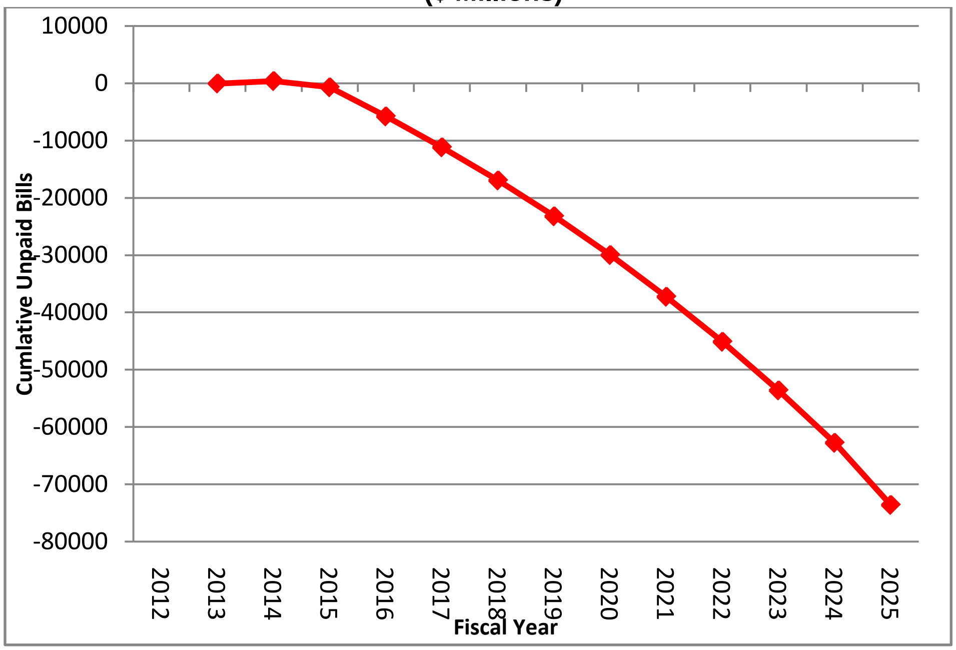
Note, the growth in annual operating deficit depicted in Figure 12 does not take into account the accumulated General Fund deficit of at least $8.1 billion that will exist by the end of FY2013.

FIGURE 12
Projected Growth in Illinois State General Fund Annual Operating Budget Caused by the Structural Deficit ($ Millions)



Long term, if decision makers opt not to increase state revenue, Figure 13 shows that Illinois could have cumulative unpaid bills of $73.6 billion by FY2025.

FIGURE 13
Illinois State General Fund Cumulative Structural Deficit
($ Millions)



8. FY2013 ENACTED BUDGET APPROPRIATIONS BY MAJOR CATEGORY

(a) Slight Nominal Increase for Human Services Does Not Counter Significant Real Cuts. Human Services – provided primarily through the Department of Aging (DOA), Department of Human Services (DHS), and Department of Children and Family Services (DCFS) – are somewhat unique among the four primary budget categories (Education, Healthcare, Human Services, and Public Safety). Unlike the other core public services, each of which has a relatively narrow program focus, human services encompass a broad panoply of programs that cover everything from aiding adults with developmental disabilities, to assisting homebound seniors, abused and neglected children, and individuals with substance abuse and mental health issues. And while most human services are delivered under the auspices of DOA, DHS and DCFS, multiple other agencies also administer human services programs. Because of this, it is difficult to analyze human services funding over time with a true "apples-to-apples" comparison.

That said, Figure 14 shows the nominal dollar difference between the FY2013 Enacted General Fund appropriations for the three primary Human Services agencies and the final appropriations for those agencies in the FY2012 budget.

FIGURE 14
Nominal Dollar Comparison of Human Services Appropriations, FY2012 Final vs. FY2013 Enacted ($ Millions)

Category	FY2012 After Veto	FY2013 Enacted	Diff FY2013 Enacted vs.– FY2012 After Veto	% Change
Department of Aging	$737.4	$785.1	$47.7	6.5%
Department of Child and Family Services	$808.5	$707.0	-$101.5	-12.6%
Department of Human Services	$3,208.5	$3,256.5	$48	1.5%
TOTAL ACROSS AGENCIES	$4,754.5	$4,748.6	-$5.8	-0.1%

Sources: SB 2443 and 6/14/2012 communication with Senate staff; and COGFA FY2013 Final General Fund Budget Summary issued in August, 2011.

The nominal dollar increases for DHS and DOA in FY2013 will help maintain the same service levels provided by those agencies in real terms at FY2012 levels. That, however, does little to offset the long-term trend of state government imposing significant, inflation-adjusted cuts to social services relied upon by vulnerable populations. Indeed, real funding for Human Services in Illinois will be substantially less (some -$1.856 billion less) under the FY2013 Enacted Budget than a decade ago in FY2002, as shown in Figure 15.

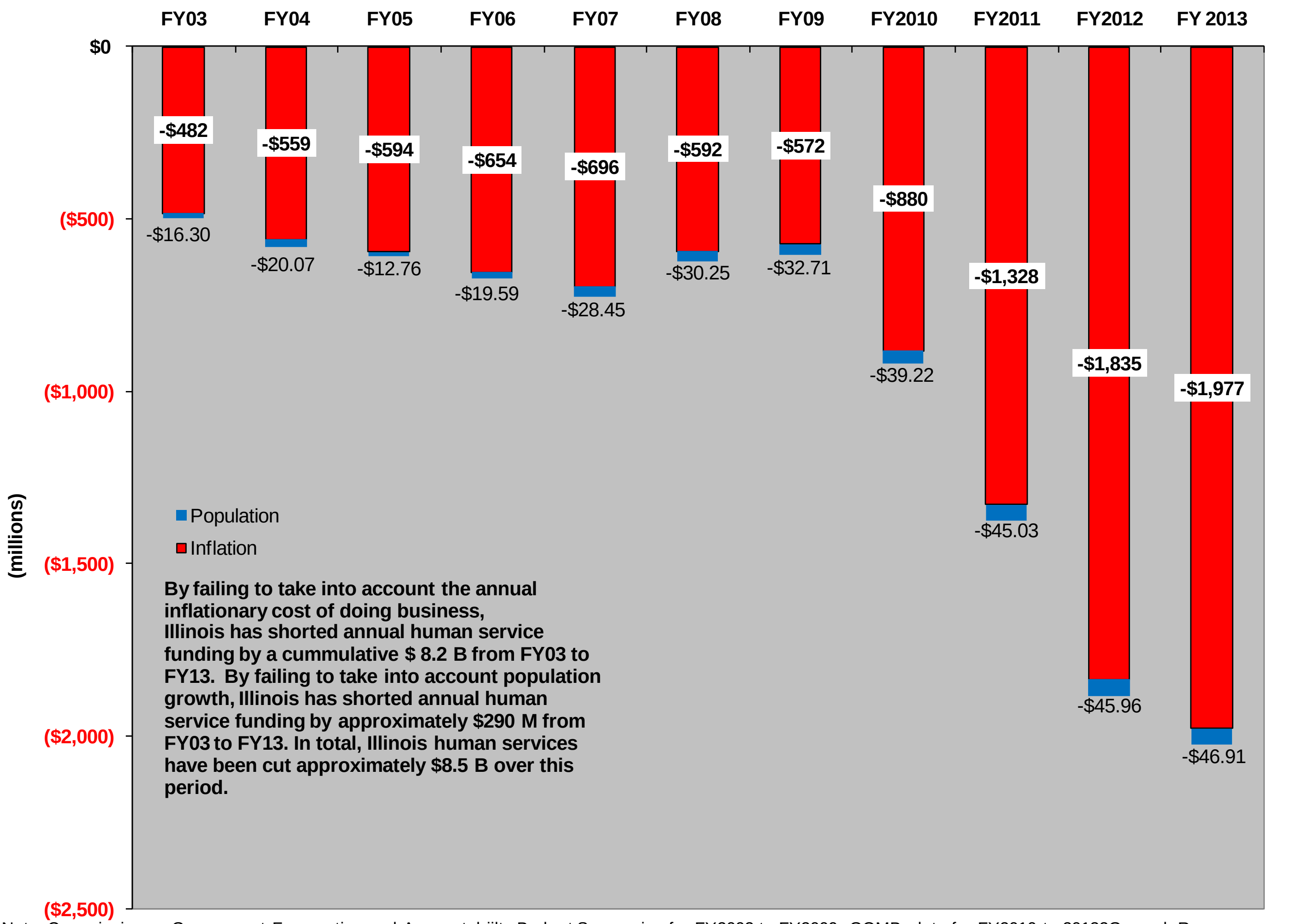
FIGURE 15
Illinois General Fund and Major Service Area Inflation Adjusted Appropriation Comparison FY2002 Enacted vs. FY2013 Enacted ($ Millions)

Category	FY2002 Final	FY2002 Adjusted	FY2013 Enacted	$ Diff FY 2013 - FY 2002	% Diff FY 2013 - FY 2002
General Fund	$23,409.3	$31,101.0	$22,424.0	($8,677.0)	-27.90%
P-12 + Higher Education	$8,894.3	$11,816.7	$8,522.0	($3,294.7)	-27.88%
Healthcare	$5,397.6	$7,171.1	$6,852.2	($318.9)	-4.45%
Human Services	**$4,971.2**	**$6,604.6**	**$4,748.6**	($1,856.0)	-28.10%
Public Safety	$1,552.3	$2,062.3	$1,663.0	($399.3)	-19.36%

Sources: COGFA Budget Summary FY2002. FY2013 Budget as passed in HR706, SB2348, SB2413, SB2443, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff. An estimate of the itemized appropriation for "Other Healthcare" of $213.3 million is based on SB2454 DPH and DHFS appropriation minus Medicaid. This is added on to Medicaid spending to get a total FY2013 "Healthcare" appropriation. Similarly, the FY2013 enacted budget appropriation for the three major human service agencies (DOA, DCFS, and DHS) is $337 million less than the FY2013 Human Service Budget appropriation by House Jurisdiction (see Figure 3). FY2002 appropriations are adjusted using ECI from the BLS and population growth from the Illinois DCEO.

Figure 16 highlights the cumulative, real impact of the General Fund cuts to Human Services over the last decade. Note that, despite the nominal Human Services funding increases included in the FY2013 Enacted Budget, human service providers will have to make up for, in the aggregate, $8.5 billion in reduced funding from the General Fund since FY2002. Because over 75 percent of human services are delivered by private sector providers[18], this significant loss in state funding has led to a concomitant loss in private sector jobs. Using multipliers developed by Mark Zandi the chief economist at Moodys.com, total Illinois job loss attributable to the $8.5 billion in real Human Service spending cuts over the last decade was around 96,000.[19]

FIGURE 16
Cumulative Impact of Cuts in Illinois Human Service Spending Since FY2002 Adjusted for Inflation and Population Growth
($ Millions)



Note: Commission on Government Forecasting and Accountabiilty Budget Summaries for FY2002 to FY2009, GOMB data for FY2010 to 20132General Revenue appropriations for the Illinois Departments of Aging, Children & Family Services, and Human Services. FY 2013 Actual based on June 2012 communications with Seante staff. Shortfalls necessary to maintain real value of FY2002 appropriation based on National Employment Cost Index (ECI). Population growth estimates from Census and Illinois Department of Commerce and Economic Opportunity.

As indicated previously, the Budgeting for Results process requires the Governor's Office of Management and Budget to release a three year General Fund budget projection listing expenditures by BFR priority area. GOMB's projections call for Human Services to be flat funded in both FY2014 and FY2015. Because the cost of delivering care increases with inflation and population growth annually, this flat funding will result in a real, inflation-adjusted spending cut to Human Services programs of at least -$390 million over those two years, as shown in Figure 17.

FIGURE 17
Projected Real General Fund Spending Cuts to Human Services under The Governor's Three-Year Projections for the FY2012 – FY2015 Sequence
($ Billions)

Category	FY2012 Enacted	FY2012 Infl& Pop Adj to FY2015	Governor's FY2015 Projected Approp	% Change	$ Diff
Human Services (Net of all Health Care)	$5.02	$5.45	$5.06	-7.2%	-0.39

(b) FY2013 Enacted Budget Short Changes Education. The FY2013 Enacted General Fund Budget appropriation for PreK–12 education is $6.54 billion dollars, which represents a nominal decrease of -$208.6 million or 3.1 percent compared to the FY2012 appropriation of $6.75 billion, as illustrated in Figure 18. Inflation (using the ECI and population) for FY2012 is estimated at nearly three percent (2.76%), which means in the FY2013 Enacted Budget PreK–12 funding will be cut by just over -$395 million in real terms from FY2012 levels, a year-to-year reduction of almost -6 percent.

FIGURE 18
FY2013 Enacted Appropriations for P-12 Education
Compared to FY2012, Nominal Dollars ($Millions)

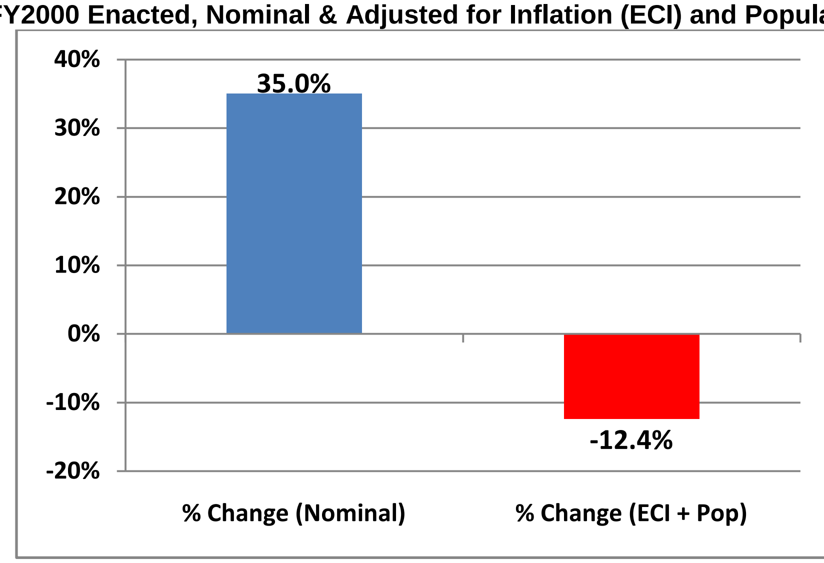
Category	FY 2012 Enacted	FY 2012 Adjusted	FY 2013 Enacted	Nominal % Change FY12 - FY13	Nominal $ Change FY12 - FY 13	Real % Change FY12 - FY13	Real $ Change FY12 - FY 13
P-12 Education	$6,750.4	$6,937.0	$6,541.8	-3.1%	-$208.6	-5.7%	-$395.2

Sources: FY 2013 Budget as passed in SB 2413, June 2012 Communications with Legislative staff; Bureau of Labor Statistics: Employment Cost Index; Department of Commerce and Economic Opportunity population growth estimates.

The aggregate appropriation for PreK-12 education in the FY2013 Enacted Budget is $6.54 billion. However, the General State Aid formula-grant portion of the PreK–12 appropriations identified in the FY2013 Enacted Budget a total of $2.345 billion, will be "prorated" for the year.[20] That means school districts will not receive the full appropriation for General State Aid identified in the FY2013 Enacted Budget, but rather a smaller portion—or proration—of that $2.345 billion appropriation. The amount of this proration, which is currently estimated at around 92 percent, has not yet been finalized. In any event, the investment in PreK–12 for the FY2012-2013 school year will be less than indicated in the FY2013 Enacted Budget—and school districts statewide will have to compensate for this reduction in state funding from appropriated levels, without knowing what the actual amount of the reduction will be.

Considered over the long-term, the FY2013 enacted appropriations for PreK–12 continue the disturbing trend of cutting the state's funding of public education in real terms. Indeed, as illustrated in Figure19, although the enacted appropriation for PreK–12education is 35 percent more in nominal dollars in FY2013 than it was in FY2000, once inflation and population changes are accounted for, real PreK–12 education appropriations will be at least 12 percent less than FY2000 levels.

FIGURE19
Enacted P-12 Appropriations for FY2013 Compared to
FY2000 Enacted, Nominal & Adjusted for Inflation (ECI) and Population



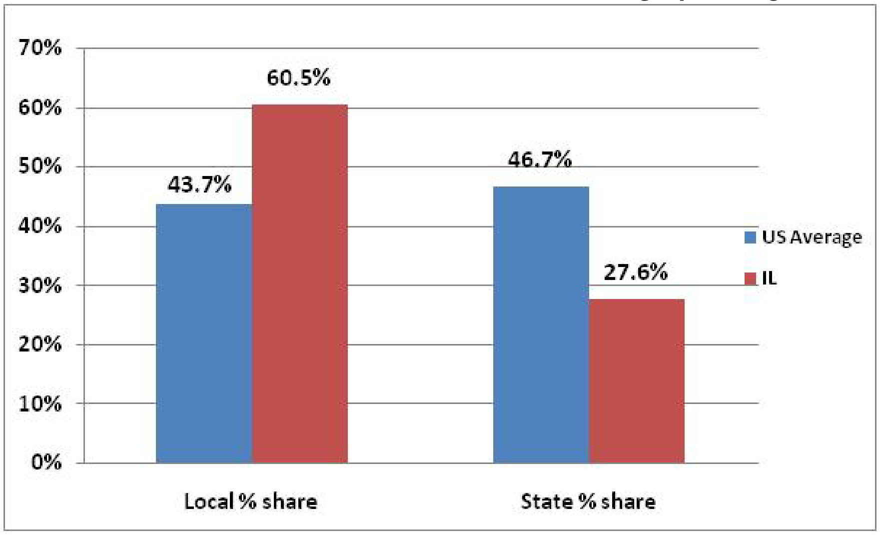
Sources: FY2013 Budget as passed in SB 2413, June 2012 Communications with Legislative staff; Bureau of Labor Statistics: Employment Cost Index; Department of Commerce and Economic Opportunity population growth estimates.

The trend of real cuts to public education funding in Illinois can be expected to continue. As shown previously in this Report, the Governor's three-year budget projection calls for flat funding of education in FY2014 and FY2015. Because the cost of delivering education increases each year due to inflation and population growth, this flat funding—if it is attained—will result in real cuts to PreK–12 education.

It is hard to justify continued cuts to Pre-K –12 funding by the state, given how clearly the data demonstrate that state General Fund spending on education in Illinois is inadequate, whether considered under national or by the state's own standards.

Consider national comparisons first. According to the National Center for Education Statistics (NCES), Illinois ranks dead last among the states in the portion of education funding covered by state, rather than local resources. Indeed, as Figure 20 shows, Illinois only covers 27.6 percent of public education costs, while the national average is 46.7 percent. Meanwhile, over 60 percent of PreK–12 education costs are covered by local resources in Illinois.

FIGURE 20
Local and State Share of Education Funding Spending



Source: National Center on Education Statistics, 2011. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-2009 (Fiscal Year 2009)."

Figures 21 and 22 show how Illinois stacks up with other large states and the Midwest.

FIGURE 21
State Share of Education Funding

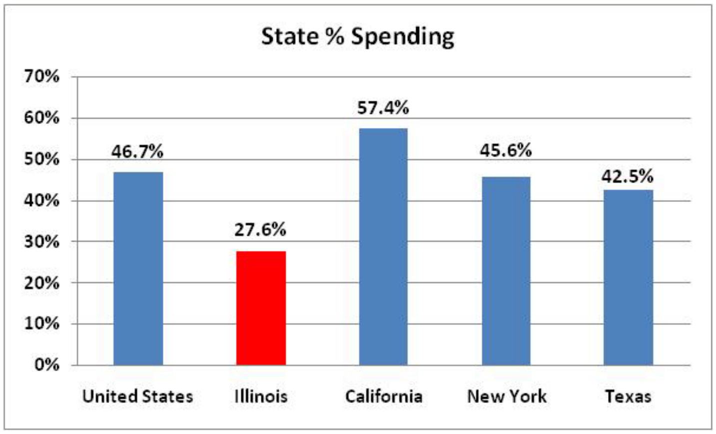
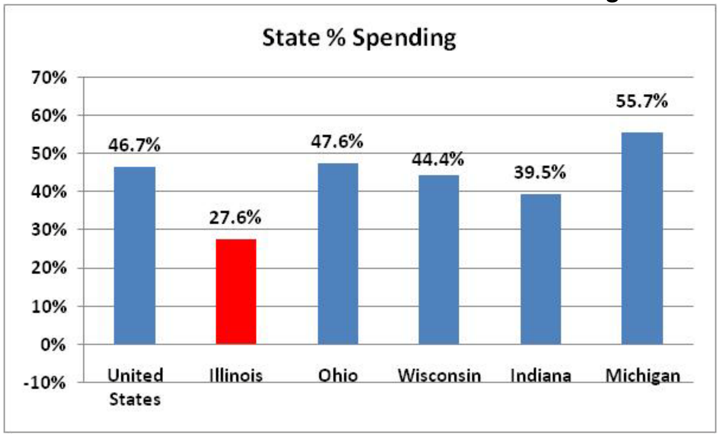


FIGURE 22
State Share of Education Funding



Source: National Center on Education Statistics, 2011. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-2009 (Fiscal Year 2009)."

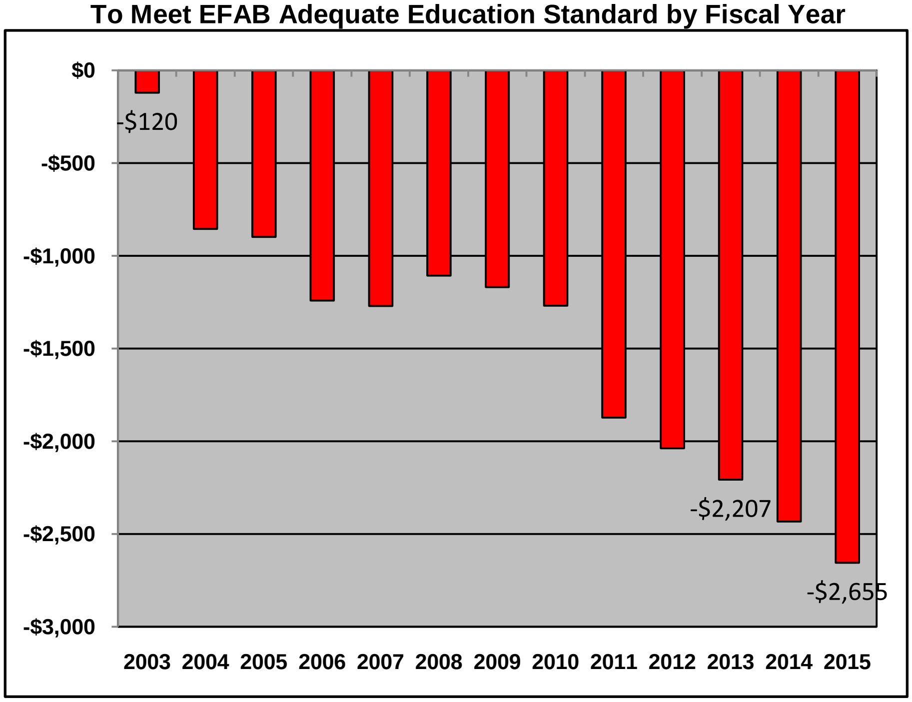
The state's poor record of funding education from state-based resources has forced local property taxes to cover a disproportionately high portion of education funding in Illinois. The data show that Illinois' significant over-reliance on local property taxes is a material cause of both poor and inequitable educational outcomes in the state.[21]

Meanwhile, despite the significant portion of education funding local school districts have assumed, overall education funding levels in Illinois remain low compared to national averages. According to the National Association of Budget Officers (**NASBO**), **Illinois ranks 40th in per capita education spending**, in spite of having the 15th highest per capita income among the states.[22]In order for Illinois to move up to being just "average" in per-capita spending (a ranking of 25) among the states, after adjusting for inflation and population growth, the state appropriation for PreK-12 education in FY2013 would have to be $10.58 billion, or fully $4.04 billion more than the FY2013 Enacted Budget appropriation.[23] So, from a national comparison standpoint, Illinois is doing a poor job funding public education.

Now consider the state's own standards. Every year the nonpartisan Education Funding Advisory Board (**EFAB**) is required by law to recommend a "Foundation Level" of per pupil spending that is sufficient to cover the cost of an adequate K–12 education. Made up of a combination of both state and local resources, the Foundation Level is supposed to include most of the basic costs of educating a "non-at-risk" child, that is, a child with a reasonable likelihood of academic success, because she does not live in poverty, is not an English Language Learner, and does not have special needs. The Foundation Level does not include the cost of significant items, like transportation, special education, and educating children who are English Language Learners or live in poverty.

Figure 23 shows the difference between the dollar amount of the Foundation Level as set by the General Assembly and Governor versus what the Foundation Level should have been to cover the basic cost of educating a non-at-risk child as recommended by EFAB over the FY2003 through FY2012 sequence. Projections for FY2014 and FY2015 are based on the Governor's three-year estimates. Last year, in FY2012, the state's actual Foundation Level was over $2,000 less per child than the EFAB recommended Foundation Level. According to the Illinois State Board of Education, the total amount that would have been needed to increase the state's enacted Foundation Level in FY2012 to the EFAB recommendation was $3.1 billion. Yet, rather than increase the Foundation Level in FY2013, it will be at best held constant with FY2012 levels, meaning the gap between the EFAB recommended Foundation Level and the state's actual Foundation Level will worsen in FY2013. Note that by FY2015, it is projected that Illinois' enacted Foundation Level will be $2,655 less per child than the cost of a basic education.

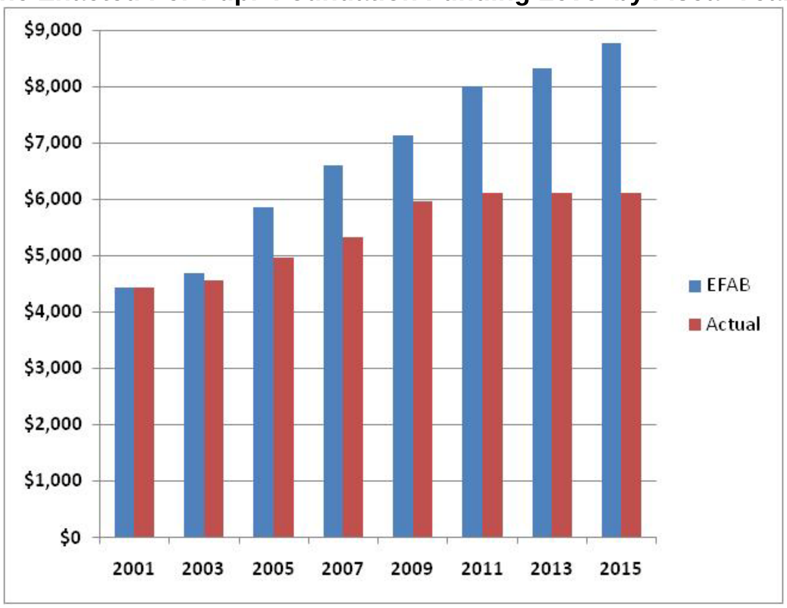
FIGURE 23
Dollar Shortfall in State Per-Pupil K-12 Education Funding To Meet EFAB Adequate Education Standard by Fiscal Year



Source: CTBA Analysis of January 2011 EFAB data. Inflation projection FY2012-FY2015 based upon ECI inflation.

Figure 24 shows how the difference between the EFAB recommendation and the state's enacted Foundation Level can be expected to grow through FY2015, based on the Governor's projections for FY2014 and FY2015 as contained in his three-year General Fund Budget projections issued in January of 2012.

FIGURE 24
EFAB Per-Pupil Funding Recommendation Compared to the Enacted Per-Pupil Foundation Funding Level by Fiscal Year



Source: CTBA analysis of EFAB data. Inflation projection FY2012-FY2015 based upon ECI inflation.

In any event, the actual shortfall between the Foundation Level set by the state and the EFAB recommendation will be greater than what is shown in either Figure 23 or Figure 24 for FY2012 and FY2013 (and in all likelihood thereafter) due to the decision to "prorate" General State Aid in FY2012 and FY2013.

(c) Continuing a Decade Long Pattern, Higher Education is cut again in FY2013. The FY2013 Enacted Budget appropriation for Higher Education is $1.97 billion dollars, which is a nominal decrease of -$113 million or -5.4 percent compared to the FY2012 appropriation of $2.09 billion. As enacted, the FY2013 appropriation for Higher Education represents a real, inflation-adjusted decrease of -7.9 percent compared to FY2012 levels.

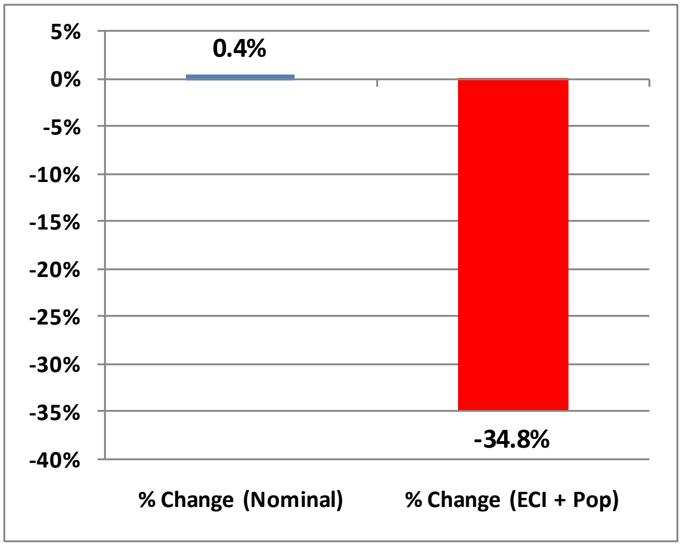
FIGURE 25
Enacted Appropriations for Higher Education In FY2013 Compared to FY2012, Nominal Dollars ($ Millions)

Category	FY2012 Enacted	FY2012 Adjusted	FY2013 Enacted	Nominal % Change FY12 - FY13	Nominal $ Change FY12 - FY 13	Real % Change FY12 - FY13	Real $ Change FY12 - FY 13
Higher Education	$2,092.0	$2,149.8	$1,979.0	-5.4%	-$113.0	-7.9%	-$170.0

Sources: COGFA FY2012 Budget Summary and FY 2013 Higher Education appropriation in SB 2443 enrolled (excluding pension contributions).

The long-term funding trend for Higher Education is not pretty, as highlighted in Figure 26. Indeed, given the FY2013 enacted appropriation, real funding for Higher Education will be significantly less in FY2013 than in FY2000.

FIGURE 26
Percentage Change in Higher Education Funding Between FY2000 and FY2013, in Nominal and Real Terms

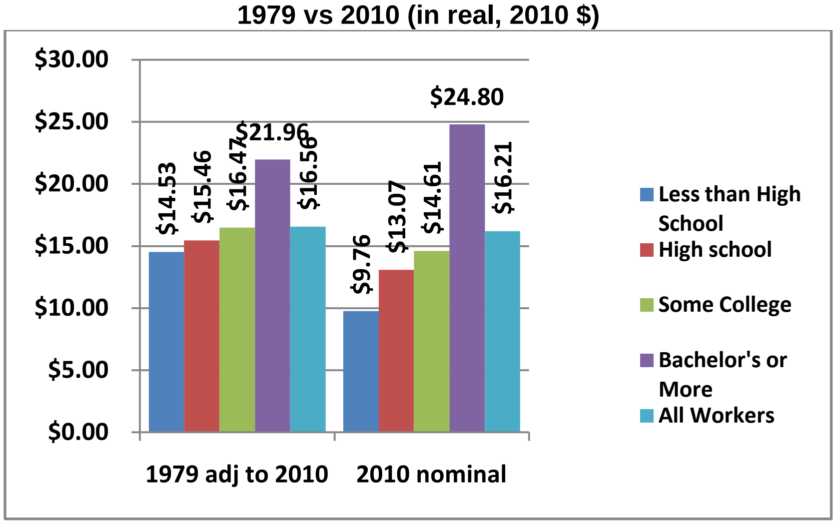


Sources: SB2443 and June 2012 communications with Senate staff. Inflation adjusted using ECI index and population.

As illustrated in Figure 26, the enacted appropriation for Higher Education in FY2013 represents a nominal dollar increase of just 0.40 percent over FY2000 levels. Once inflation and population changes are accounted for, however, the enacted Higher Education appropriation for FY2013 is almost 35 percent less than FY2000.

Cuts to Higher Education will make it harder for many Illinois students to attend college, at a time when a college degree is more important than ever when it comes to success in the labor market. Indeed, as shown in Figure 27, the only cohort of workers in Illinois who realized a real increase in wages from 1979 through 2010 had a college degree. Every other worker saw his or her pay decline in real terms.

FIGURE 27
Hourly Wage Comparison by Education Level, 1979 vs 2010 (in real, 2010 $)



This is a real problem in Illinois. Consider that the state's fiscal woes have so hampered its ability to assist low-income students in paying for college that as recently as March 21, 2012, the *Chicago Tribune* reported that funding for Monetary Award Program (MAP) grants, which provide this very crucial support, has been exhausted. The consequences of this are clear: approximately 140,000 Illinois college students will lose up to $4,968 each in state grants that would have helped pay for college.

(d) Healthcare Overall. There have traditionally been three primary categories of Healthcare spending in the state's General Fund: Medicaid for poor, disabled and low-income populations; Group Health Insurance for state workers; and funding for the Department of Public Health. Also historically included in Healthcare funding were the administrative and related costs of child support services delivered by the Department of Health and Family Services (DHFS). Under the new Budgeting for Results regimen, however, Public Health, Group Health and the administrative costs of child support services delivered by DHFS have been re-categorized as "Human Services" spending—collectively described below as "Other Healthcare" within the rubric of Human Services.

Given those changes in how funding for these services is categorized, Figure 28 shows the differences between the FY2012 budget and the FY2013 Enacted Budget in nominal dollars.

FIGURE 28
Comparison of FY2012 and FY2013
Appropriations for Healthcare ($ Millions)

Category	FY2012 Enacted	FY2013 Enacted
Medicaid	$6,639	$6,639
Group Health	$1,436	$1,171
Other Healthcare	$ 260	$ 213
TOTAL	**$8,335**	**$8,023**

Sources: FY 2012 Enacted and FY 2013 Enacted for Medicaid and Group Health, from SB 2454 and as reported by Senate staff, June 2012. FY 2013 appropriation for "Other Healthcare" of $ 213.3 million is based on SB2454 DPH and DHFS appropriation minus Medicaid. FY 2012 appropriation for other healthcare is based on similar FY 2012 approps in GOMB FY 2013 proposed budget book.

There has been much concern expressed recently about Healthcare expenditures generally and Medicaid expenditures specifically. Medicaid will be dealt with at some length in the following section of this Report. However, even after Medicaid expenditures are taken into account, overall inflation-adjusted General Fund spending on Health Care Services for the public (excluding Group Health Insurance) in Illinois will be less in FY2013 than it was in FY2000, as shown in Figure 29.

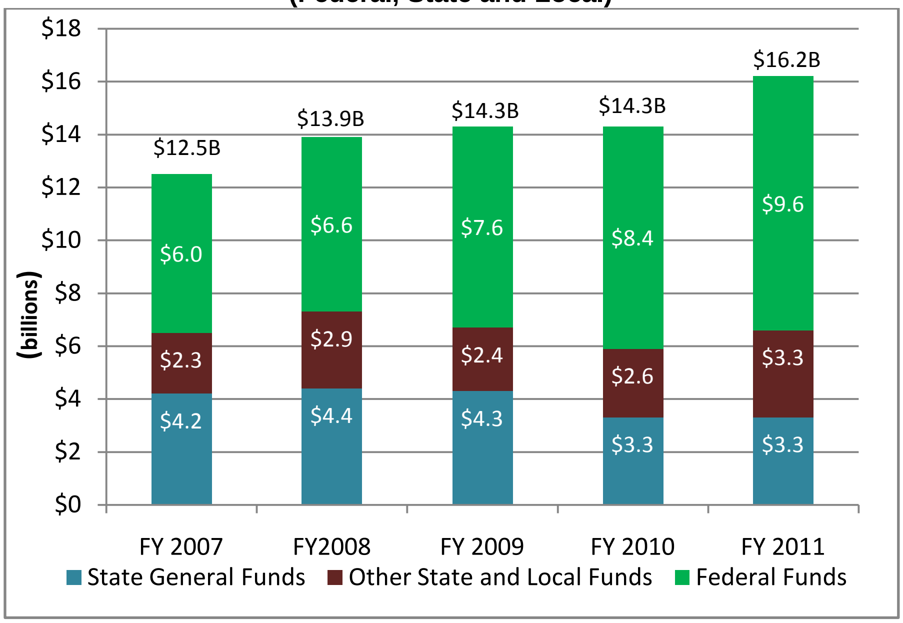
FIGURE 29
Health Care Spending, FY2013 Enacted vs. FY2000,
Adjusted for Inflation and Population ($ Millions)

Category	FY2000 Enacted	FY2000 Infl& Pop Adj to FY2013	FY2013 Enacted	% Diff FY2013 GOMB & FY2000 Adj
Healthcare (including Medicaid, DHFS and DPH, but excluding Group Health Insurance)	$5022	$8,934	$6,852	-23.3%

Sources: Unadjusted historic appropriations from Governor's Final Budget Summary for FY2000; FY 2013 Enacted for Medicaid from SB 2454 and as reported by Senate staff, June 2012. FY 2013 appropriation for "Other Healthcare" of $ 213.3 million is based on SB2454 DPH and DHFS appropriation minus Medicaid. FY 2012 Healthcare (net of Group Health) is sum of these. Health Care spending inflation adjusted using the Midwest Medical CPI.

(e) Medicaid. For FY2013, Medicaid spending was targeted by both the House and Governor for a significant, $2.7 billion cut from FY2012 levels. Ostensibly, the reason for making this cut to Medicaid is because officials were worried that the growth in overall Medicaid expenditures over time was absorbing so much state revenue that it was crowding out funding for other core services in the General Fund. However, as indicated previously, nothing could be further from the truth. Despite the fact that overall Medicaid expenditures have been increasing over the last five years, the portion of Medicaid expenditures actually paid by state, own-source tax revenue has been declining, as shown in Figure 30.

FIGURE 30
Medicaid Spending by Funding Source
(Federal, State and Local)



Source: National Association of State Budget Officers State Expenditure Report, 2010, released December 13, 2011, Pg. 47, Table 28.

Note that the FY2011 Medicaid expenditures are both estimated, and include the enhanced federal matching funds Illinois received due to the significant increase in the federal Medicaid matching rate, from 50 percent to 61.88 percent that was temporarily implemented under the Federal Stimulus program.[24] That said, the state own-source General Fund tax revenue used to cover Medicaid expenses in FY2010 and as projected for FY2011 was $3.3 billion, or fully $900 million less than in FY2007. This means the way the state financed its Medicaid program actually freed up $900 million in state tax revenue which was formally used for Medicaid, to instead fund other core services through FY2011.

As indicated in Figure 30, the data on own-source tax revenue used to fund Medicaid came from the Illinois final report to the National Association of State Budget Officers, which has not been updated through FY2012. DHFS, however, currently estimates that own-source tax revenue used to fund Medicaid will increase from the $3.3 billion used in FY2011 to $3.5 billion in FY2012. Even if this happens, state own-source tax revenue used to fund Medicaid in FY2012 will still be $700 million less than in FY2007. So, rather than crowding out the other core services, the Medicaid program has actually been subsidizing them.

Despite the decrease in state own-source revenue used to pay for Medicaid, on June 14, 2012, the General Assembly enacted Public Act 97-0689, which is designed to reduce the state's expenditures on Medicaid in FY2013 by $1.6 billion, through 62 different program specific spending reductions, new service utilization limits, and cutting healthcare provider reimbursement rates. Of the 62 spending reductions, $1.36 billion in cuts are attributable to Medicaid programmatic changes and $240 million to provider rate cuts. Many of the Medicaid service cuts will deny preventative, dental and other needed healthcare services to low-income populations.[25] Moreover, further cuts to Illinois' already low provider reimbursement rates will likely discourage some healthcare providers from taking on Medicaid patients.

In addition, the legislature appropriated (subject to budget implementation bills that have not yet been passed) enough additional General Fund and other revenue to Medicaid to cover $1.1 billion in unpaid Medicaid bills left over from FY2012.[26] This $1.1 billion payment comes from a combination of existing General Fund Revenue, new cigarette and tobacco tax revenue, new Hospital Assessment Revenue, new patient fees and the federal match generated thereby, as shown in Figure 31.

FIGURE 31
Revenue Sources for New, FY2013 Repayment of
$1.1 Billion in Medicaid Bills Left Over from FY2012
($ in Millions)

(i)	State Revenue Sources	Amount
	● General Fund Transfers Out ● New Cigarette and Tobacco Tax Revenue ● Enhanced Hospital Assessment Fees ● Subtotal State Revenue	$151 $350 $ 50 $551
(ii)	Federal Match on the Above	$551
(iii)	Total Payment in FY2013 of FY2012 Medicaid Bills	$1,102

Together, the $1.6 billion in cuts and $1.1 billion in additional bill payments cover the accumulated unpaid Medicaid costs that the Department of Healthcare and Family Services initially projected would go unpaid in FY2013.[27] Figure 31 shows how the state's share of unpaid Medicaid bills was initially projected by the Department of Health and Family Services (**DHFS**) to increases through FY2017.

FIGURE 32
Department of Health and Human Services Projection of
Growth in State's Own-Source Tax Revenue Share
Medicaid Expenditures FY2013 through FY2017
($ Millions)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Current FY Liability	$4,318	$4,673	$5,103	$5,409	$5,734	$6,082
Year-to-Year Increase		$354	$431	$305	$326	$347
Amount Scheduled to Pay	$3,545	$3,330	$3,313	$3,313	$3,313	$3,313
Unpaid Carry Forward into Next Fiscal Year	$773	$1,343	$1,791	$2,096	$2,421	$2,769
Total State Share of Unpaid Bills at FY End (net of DHFS regular, annual lapse payments)*	N/A	$2,116	$3,906	$6,002	$8,423	$11,192

Source: DHFS Five-Year Medical Assistance Budget Outlook: General Revenue and Related Funds Only, April 2011.
* Note, Medicaid lapse payments are approximately $300 million annually according to DHFS.

As shown in Figure 32, the major cause of the projected growth in unpaid Medicaid bills from year-to-year were the state's decisions to: (i) hold the portion of Medicaid paid for with state tax dollars constant – in nominal dollar terms – with reduced FY2013 levels; (ii) leave $773 million in Medicaid bills from FY2012 unpaid. Not paying past due bills and not even covering the inflationary cost of maintaining Medicaid service levels from year to year thereafter would of course cause the amount of unpaid bills to grow.

If instead of making cuts to Medicaid which may deny needed healthcare services to low-income populations, the state implemented the initiatives and reforms identified in Figure 33 (which CTBA recommended in May, 2012), paid the $773 million it owed to Medicaid providers for FY2012, and held state tax dollars used to cover Medicaid expenses constant as a share of state own-source revenues with FY2012 levels through FY2017, the long-term growth in Medicaid expenditures for the state could have been reduced by over 81 percent from GOMB's projections, as shown in Figure 34.

FIGURE 33
Revenue Enhancements and Cost Saving Reforms for Medicaid In Illinois
($ Millions)

Category	Annual Revenue Impact	Annual Cost Savings
Increase Cigarette Tax by $1 per pack	$337.5	NA
Obtain Federal Approval of State Medicaid	$40	NA
Enhance Hospital Assessment	$20	NA
Enforce Current Eligibility Policies	NA	(-$240)
Reform Outpatient Drug Policy to Collect Rebates + Pilot program on Med Therapy Mgmt	$20.5	NA
Enhance Collection from Third Party Insurers of Medicaid Enrollees for Pharmaceuticals	$40	
Improve Prenatal Case Management to Reduce Non-normal Births + no pay for Scheduled C Sections prior to 39 weeks	NA	(-$27.85)
Reduce Preventable Hospital Re-Admissions for Medical Populations (Detox, potentially preventable events)	NA	(-$65)
Prior Approval for Brand Name Transplant Drugs that have Generic Equivalent		(-$2.7)
Move Medicaid Services to VA for Qualified Veterans		(-$2.0)
Cost Sharing Co-Pay for Nonemergency use of Emergency Room	$9	
Recovery Audit Contractor Payment Recapture	$21.9	
Enhance Care Coordination Focused on High Cost Enrollees		(-$16.1)
Reform Private Insurance Market		(-$250)
Weight Loss Utilization Control		(-$3)
NET NEW REVENUE/COST SAVINGS	**$488.9**	**(-$606.7)**

Figure 34 shows how much the growth in the state's share of unpaid Medicaid liabilities as projected by DHFS could have been reduced by: (1) taking both CTBA's suggested Medicaid targeted new revenue of $488.9 million and cost savings of $606.7 million and applying them to the program; (2) using $773 million of the $800 million designated in the FY2013 Enacted Budget to pay past due bills from FY2012 to pay all the Medicaid bills left over from that fiscal year; and (3) holding the state investment of own-source tax dollars in Medicaid constant at the FY2012 levels in real dollars, adjusting for own source revenue growth.

If those steps were taken, Figure 34 shows fully 81.8 percent of DHFS's projected growth in unpaid bills in Medicaid through FY2017 would have been eliminated without implementing dramatic cuts to the Medicaid program. Moreover, based on the multipliers of Mark Zandi, chief economist for Moody's.com, the Medicaid expenditures maintained through $537.6 million increased FY 2017 state Medicaid spending and the corresponding federal match that spending would generate, would save approximately 12,000 Illinois private sector jobs through FY2017 that otherwise would have been lost.

FIGURE 34
Impact of Cost Savings/Revenue Enhancements
on State Share of Medicaid Liability including updated revenue enhancements

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Original DHFS Estimated FY Liability	$4,318.5	$4,673.8	$5,103.4	$5,408.6	$5,734.2	$6,081.6
Adjustment for Cost Savings	NA	(-$606.7)	(-$637.07)	(-$669.5)	(-$703.6)	(-$740.2)
Reduced FY Liability	NA	$4,067.1	$4,466.4	$4,739.1	$5,030.6	$5341.4
New Medicaid Revenue + Cigarette Tax		$488.9	$500.6	$512.6	$525.0	$537.6
FY2012 State GF Tax Revenue Used for Medicaid, Adjusted For Own-Source Revenue Growth	$3,545	$3,630.1	$3,717.2	$3,806.4	$3,897.8	$3,991.3
Annual Operating Shortfall	$773	(-$51.9)	$248.5	$420	$607.9	$812.5
Use of $773 Million from House Proposal to Eliminate FY2012 Carry Forward	-$773	NA	NA	NA	NA	NA
NET UNPAID BILLS AFTER REFORMS	**$0**	**(-$52.9)**	**$195.6**	**$615.6**	**$1,223.5**	**$2,036.0**
Original DHFS Projections of Unpaid Bills	**NA**	**$2,116.1**	**$3,906.7**	**$6,002.5**	**$8,423.8**	**$11,192.6**
Reduction in Unpaid Bills from Reforms	**NA**	**(-$2169.0)**	**(-$3,711.1)**	**(-$5,386.8)**	**(-$7200.3)**	**(-$9,156.5)**

The Medicaid cost savings and revenue enhancements identified by CTBA that are outlined in Figure 34 were based on the best information available before the final FY2013 Enacted Budget passed. As it turns out, the revenue enhancements actually passed in the FY2013 Enacted Budget were $92.5 million greater than the estimates available to CTBA in May 2012. In Figure 35, the Medicaid revenue and cigarette tax figure was increased by $92.5 million to account for the FY2013 Enacted Budget numbers. If that increase is combined with the other reforms CTBA supported, 86.1 percent of DHFS's projected growth in unpaid Medicaid bills through FY2017 would be eliminated.

FIGURE 35
Impact of Cost Savings/Revenue Enhancements
on State Share of Medicaid Liability including updated revenue enhancements

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Original DHFS Estimated FY Liability	$4,318.5	$4,673.8	$5,103.4	$5,408.6	$5,734.2	$6,081.6
Adjustment for Cost Savings	NA	(-$606.7)	(-$637.1)	(-$669.5)	(-$703.6)	(-$740.2)
Reduced FY Liability	NA	$4,067.1	$4,466.4	$4,739.1	$5,030.6	$5394.4
New Medicaid Revenue + Cigarette Tax		$581.4	$595.4	$609.6	$624.3	$639.4
FY2012 State Own-Source Tax Revenue Used for Medicaid, Inflation Adjusted	$3,545	$3,630.1	$3,717.2	$3,806.4	$3,897.8	$3,991.3
Annual Operating Shortfall		(-$144.4)	$153.7	$323.1	$508.5	$710.7
Use of $773 Million from House Proposal to Eliminate FY2012 Carry Forward	-$773	NA	NA	NA	NA	NA
NET UNPAID BILLS AFTER REFORMS	**$0**	**(-$144.4)**	**$9.3**	**$332.4**	**$841.0**	**$1,551.6**
Original DHFS Projections of Unpaid Bills	**NA**	**$2,116.1**	**$3,906.7**	**$6,002.5**	**$8,423.8**	**$11,192.6**
Reduction in Unpaid Bills from Reforms	**NA**	**(-$2,260.5)**	**(-$3,897.4)**	**(-$5,670.0)**	**(-$7,582.8)**	**(-$9,640.9)**

(f) Unrealistic Schedule for Repayment of Debt Owed to the Pension Systems Continues to Strain Fiscal Resources. As indicated previously in this Report, Illinois state government has the responsibility to fund five distinct public employee pension systems: TRS, SURS, SERS, GARS and JRS.[28] Presently, all five state-sponsored retirement systems are significantly underfunded, with a combined unfunded liability of $82.9 billion and a collective funded ratio of just 43.4 percent.[29] This means the retirement systems' assets cover less than 50 percent of their liabilities. Figure 36 shows the current financial condition of each retirement system. Since public employee pension benefits are constitutionally guaranteed in Illinois,[30] the state must pay the full $82.9 billion in unfunded liabilities it owes.

FIGURE 36
Summary of State-Sponsored Retirement Systems' Financial Conditions ($ Thousands)

System	Assets[31]	Liabilities	Unfunded Liability	Funded Ratio	Unfunded Liability to Payroll Ratio
JRS	614,596.2	1,952,539.4	1,337,943.2	31.5%	791.0%
SERS	11,159,836.6	31,395,007.8	20,235,171.2	35.6%	480.5%
TRS	37,769,753.0	81,299,745.0	43,529,992.0	46.5%	472.9%
SURS	13,945,700.0	31,514,300.0	17,568,600.0	44.3%	507.6%
GARS	63,161.0	298,408.4	235,247.3	21.2%	1548.9%

Source: Each system's FY2011 Comprehensive Annual Financial Report (CAFR)

According to GOMB, the state's FY2012 contribution to the five state-sponsored pension systems will be $4.14 billion. That contribution increases to $5.1 billion under the FY2013 Enacted Budget. Figure 37 provides a breakdown of the FY2012 and FY2013 state pension contributions.

FIGURE 37
FY2012 and FY 2013
Pension Contributions ($ Millions)

	FY2012 Enacted Budget[i]	FY 2013 Enacted Budget[ii]
Teachers Retirement System	$2,406	$2,702
State University Retirement System	$980	$1,403
State Employees, Judges & General Assembly Retirement Systems[32]	$978	$1,144
Less: Transfers from State Pension Fund (Unclaimed Property)	(-$230)	(-$150)
Equals: General Fund Pension Contributions (net)	**$4,135**	**$5,099**

Source: (i) FY2013 GOMB Budget Book, Ch. 2-18; and (ii)Public Act 97-0685

It should be noted that both the FY2012 and FY2013 pension contributions are less than the estimates produced by the retirement systems themselves for those two fiscal years by a combined $107 million. Figure 38 compares the state budgeted pension contributions with the retirement systems' estimates. According to GOMB, this $107 million differential over FY2012 and FY2013 will be made up through use of either transfers from special funds **(as yet undetermined**) or other General Fund appropriations made to the agencies that have members in the respective plans.

FIGURE 38
FY2012 and FY2013 Budgeted Pension Contributions vs. Retirement Systems Certified Pension Contributions ($ Millions)

	FY2012 Enacted Budget(i)	FY2012 Certified Amount(ii)	FY2013 Enacted Budget(iii)	FY2013 Certified Amount(vi)
Teachers Retirement System	$2,406	$2,406	$2,703	$2,702
State University Retirement System	$980	$980	$1,403	$1,403
State Employees, Judges & General Assembly Retirement Systems[33]	$978	$1,032	$1,144	$1,198
Less: Transfers from State Pension Fund (Unclaimed Property)	($230)	($230)	($150)	($150)
Equals: General Fund Pension Contributions (net)	**$4,135**	**$4,188**	**$5,099**	**$5,153**

Sources: (i) FY2013 GOMB Budget Book, Ch. 2-18; (ii) Systems' certified letters contained in COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2010"; (iii) Public Act 97-0685; and, (vi) Systems' certified letters contained in COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2011."

In either case, the proposed pension contribution for FY2013 will be a little more than 23 percent greater than in FY2012. This is a significant year-to-year increase that can be expected to continue under current law. But the primary reason why there will be significant, annual growth in the state's pension contribution is poorly understood. It has nothing to do with increasing benefits for workers, nor any other inherent aspect of the pension systems themselves. By far and away the main reason the state's annual contributions to its pension systems are increasing so much annually is the unrealistic, heavily back-loaded schedule the legislature set back in 1995 for repaying the debt the state owes to its pension systems.

Proof that debt is driving the increase in annual pension payments is easy to establish. Of the $4.135 billion contribution to the five pension systems estimated for FY2012, about $1.613 billion is the employer's normal cost of funding benefits being earned by current workers,whereas more than half, $2.522 billion, is repayment of debt. Of the FY2013 contribution of $5.099 billion to the five pension systems, about $1.578 billion is attributable to the employer's normal cost of the benefits being earned by current workers, while $3.521 billion is the debt repayment. That means all of the 23 percent year-to-year growth in the pension contribution from FY2012 into FY2013 is due to the repayment schedule.

How did we get here? For decades, Illinois has had a structural deficit (as identified previously in this Report). To paper over—without resolving—the fact that the cost of delivering public services from year-to-year grew at a greater rate than revenue did—decision makers opted to borrow against what they owed the pension systems and use that borrowed revenue to fund delivery of public services. This meant that for decades the pension systems—against their will—were lending money to the state's General Fund to subsidize the cost of delivering current services. This effectively allowed taxpayers to consume public services for over 40 years without having to pay the full cost of those services.

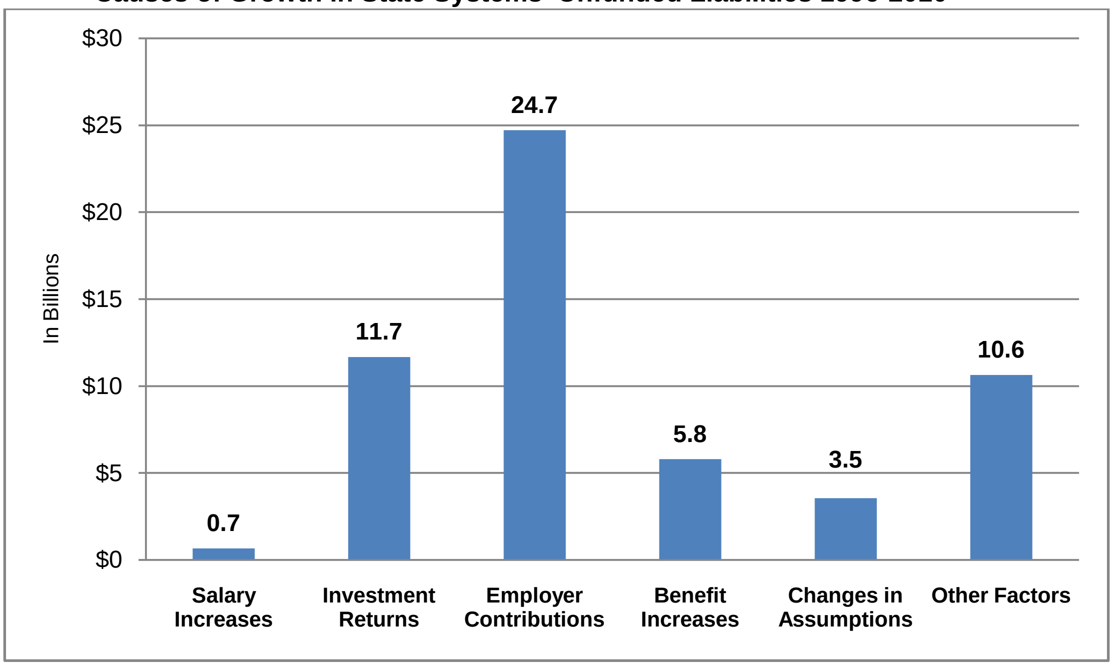
By the end of FY1994, Illinois lawmakers had borrowed so much against the pension systems to fund services that the overall funded ratio of all five systems was just 54.5 percent, and there was a cumulative unfunded liability of $17 billion.[34] Ostensibly to rectify this situation, in FY1995 the General Assembly passed and Governor Edgar signed P.A. 88-0593, which established what became known as the "Pension Ramp." The Pension Ramp mandated that the state's annual pension contributions be made pursuant to a continuing appropriation, and established a repayment schedule for the debt owed to the pension systems which would result in all five systems having 90 percent funded ratios by 2045.

Even though P.A. 88-0593 was allegedly designed to repay the debt owed to and resolve the unfunded liability of the pension systems—by law—the legislation continued the practice of borrowing against contributions owed to the pension systems to subsidize the cost of delivering public services for 15 years after passage. P.A. 88-0593 accomplished this boondoggle by creating the following two-phase repayment schedule:

- **<u>Part 1: Fiscal Years 1996-2010</u>**. During this "15-year phase-in period" the state's annual contributions were calculated as a percentage of payroll significantly below the normal cost of funding benefits for current workers each year. This effectively increased the unfunded liabilities of the five pension systems by $24.7 billion. Figure 39 shows how much all factors contributed to the growth in unfunded liabilities during this period.

- **<u>Part 2: Fiscal Years 2011-2045</u>**. During this period, the state is annually required to contribute a percent of payroll that is sufficient, when added to employee contributions, investment income and other income, to bring the systems to a 90 percent funded ratio by the end of FY2045.

FIGURE 39
Causes of Growth in State Systems' Unfunded Liabilities 1996-2010[35]



Source: COGFA, "A Report on the Appropriateness of the 90% Funding Target of Public Act 88-593." p. 9.

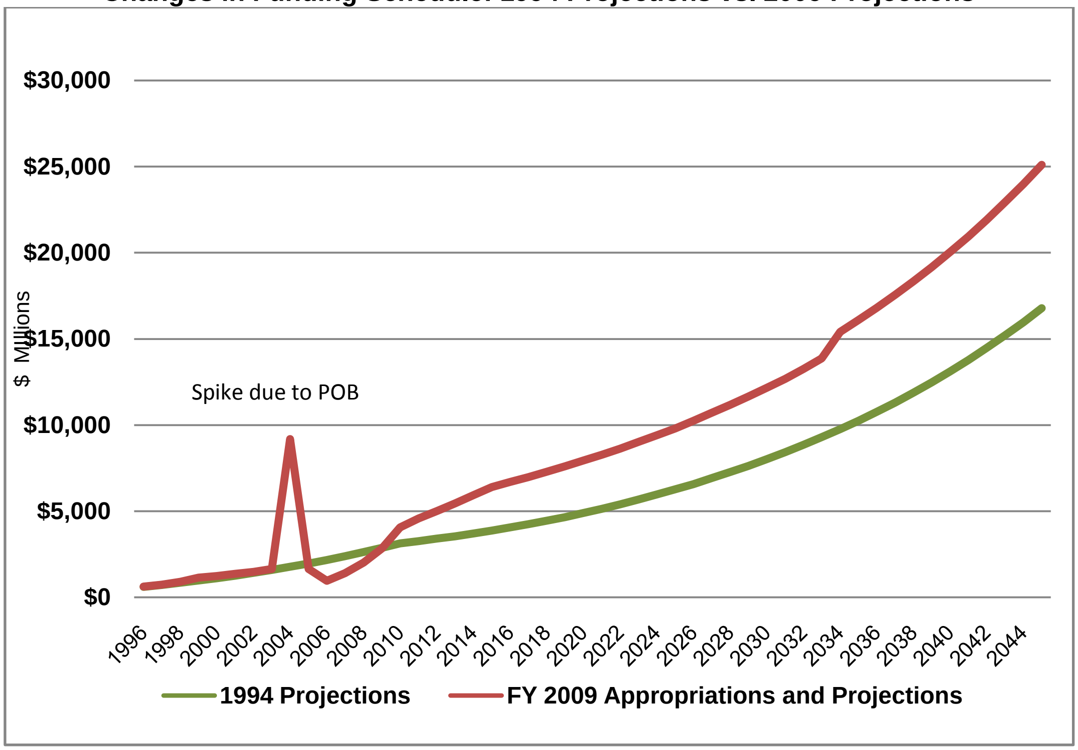
In what can only be described as piling on, legislation enacted during former Gov. Blagojevich's tenure altered the funding schedule designed by P.A. 88-0593, and resulted in making the already unattainable repayment schedule initially established under the Pension Ramp even worse.

First, the Blagojevich Administration paid a portion of the state's pension contribution for FY2003 and all of its FY2004 contribution with debt proceeds from the sale of $10 billion worth of Pension Obligation Bonds (2003 POB). Under this legislation, P.A. 93-0002, the state's annual contributions to the pension systems were reduced by the annual debt service on the bonds.[36] It would be one thing if all the $10 billion in debt proceeds from the 2003 POB were paid into the pension systems to retire pre-existing pension debt. That would have constituted a refinancing at lower interest rates, something businesses do all the time to save money. In this instance, however, the state incurred debt to pay its current obligations—which had to be repaid over time—ultimately increasing costs to the state, a situation made worse by the reduction in current annual contributions the bill implemented.

Then in 2005 the General Assembly passed P.A. 94-0004, which was designed to reduce the liability growth in the five pension systems, providing future savings. However, that legislation also reduced the state's contributions to the retirement systems for FY2006 and FY2007 by $2.31 billion. The reduction in the state's pension contributions for those two fiscal years essentially offset the liability savings that were supposed to result from P.A. 94-0004 over the long-term.[37]

Figure 40 shows the state's annual contributions based on the funding schedule for fiscal years 1996-2045 as it was originally established under the Pension Ramp (in green), compared to how those contributions changed due to growth in unfunded liabilities (in red) caused by both the changes in law enacted during the Blagojevich Administration that resulted in insufficient employer contributions, and the investment losses caused by the financial crisis of 2008.

FIGURE 40
Changes in Funding Schedule: 1994 Projections vs. 2009 Projections

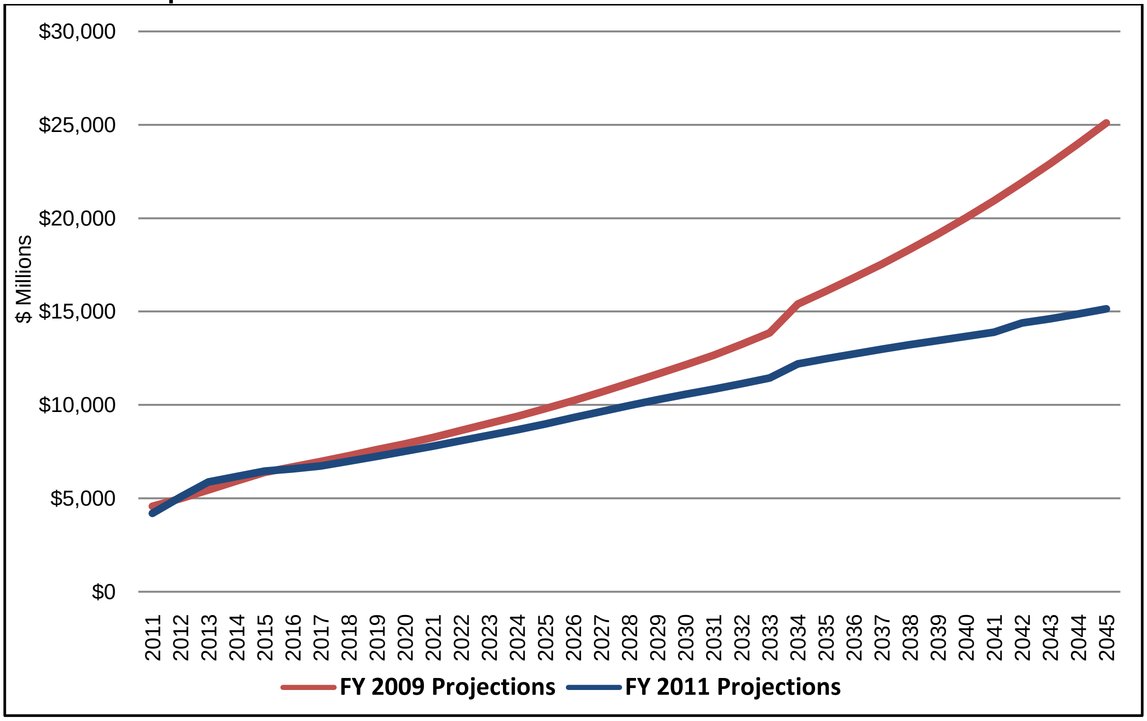


Sources:(i) COGFA, 2006."Report on the 90% Funding Target of Public Act 88-0593;" and, (ii) COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2009."

In 2010, legislators took a new approach to reducing the state's obligation to repay its debt to the pension systems. Rather than replace the existing Pension Ramp with a rational, attainable payment schedule, they decided to have future workers pay for state government's past sins by creating a second benefit tier under SB 1946 (P.A. 96-0889). This legislation requires new employees who receive lower pension benefits under Tier II, to make contributions to the pension systems that cover more than the cost of their Tier II benefits. In effect, this means new state employees and teachers are assuming part of the state's obligation to repay pre-existing pension debt—out of their wages. This ultimately reduces the employer contributions required from the state.

Figure 41 shows how Tier II reduces the state's projected employer contributions (the blue line) compared to pre-existing law (the red line).

FIGURE 41
Required State Pension Contributions Before & After Creation of Tier-II



Sources:(i) COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2009," p. 87; and, (ii) COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2011," p. 95.

Of course, the future savings projected from Tier II assume that the state will adhere to the current funding schedule, an assumption which seems overly optimistic. In FY2011, the state could not pay its pension contribution from General Fund revenue, so instead it authorized the sale of $4.096 billion worth of bonds under P.A. 96-1497 to cover that contribution. Of the authorized amount, the state only sold $3.7 billion in bonds, which it used to pay a portion of its FY2011 pension contributions. The state's use of debt—which has to be repaid—to cover its then current pension contribution is nothing new. The proceeds of bond sales authorized under P.A. 96-0043 were similarly used to pay part of the state's required contributions for FY2010. It is just not possible for the state to continue issuing pension bonds to meet its annual contribution requirements going forward. Which means it is highly unlikely the state will continue to meet its annual pension contributions, given the continued growth in both its contribution payment schedule on the one hand, and the structural deficit on the other.

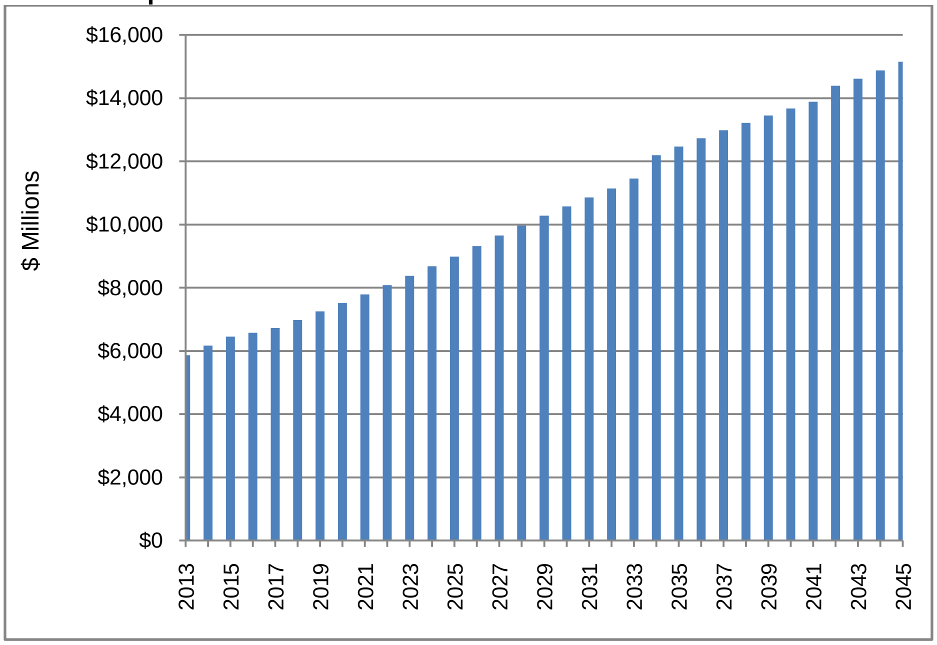
After all the changes in law passed over the prior few years, the remaining payment schedule under the now modified pension ramp is still unattainable. To meet the 90 percent funded ratio target by 2045, annual employer contributions will have to grow by 3 percent every year for the remainder of the funding schedule (FY2013 – FY2045).[38]

Figure 42 displays projections of the state's pension contributions for FY2013 through FY2045 under the modified Pension Ramp.

In his FY2013 budget address, Governor Quinn acknowledged that decades of insufficient funding have eroded the pension systems. He further stated that, "We must stabilize and strengthen our pension systems to prevent them from swallowing up our core programs…and to ensure that we can pay all our bills."

While the data support his desire to strengthen the state's pension systems, it does not support his contention that the pension systems are "swallowing up" core programs. Indeed the converse is true.

FIGURE 42
Required State Pension Contributions FY2013 – FY2045



Source: COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2011," p. 95.

The debt Illinois incurred to these systems over time subsidized the cost of service delivery to taxpayers. Now the bill is coming due to repay that debt—a debt that allowed all taxpayers to receive core services for decades at a discount. The payment schedule for repaying that debt is both unrealistic and the cause of the fiscal strain that threatens funding for services.

9. CONCLUSION

Since the Center for Tax and Budget Accountability was formed in 2000, our organization has been analyzing the state of Illinois' fiscal system with a focus on the General Fund. The reason for this focus is simple: the General Fund is what pays for the core services of Education, Healthcare, Human Services and Public Safety demanded by voters and taxpayers. Over this time period, the fiscal condition of the Illinois General Fund has continued to deteriorate from year to year, with deficits growing annually.

Contrary to popular belief, the reason for the state's deteriorating fiscal condition has had nothing to do with runaway spending. Indeed, the state has been cutting real spending on all four categories of core public services for over a decade and ranks well below the national average in critical Education and Human Service spending both in per-capita and capacity terms. The data show that Illinois has been slowly starving its public sector for years, lowering the quality of life for current residents and diminishing the state's long-term economic competitiveness.

The reason Illinois has allowed its fiscal system to deteriorate is simple: lack of political will to deal with the state's flawed tax policy, which is the primary cause of the fiscal problems in Illinois. Indeed, the state's tax policy is so flawed it cannot support the provision of the same level of services from one fiscal year into the next. At this juncture, further cuts in spending on core services will invariably fall hardest on school children and the poorest, most vulnerable Illinoisans, severely compromise the states' long term economic development, and ultimately NOT SOLVE THE PROBLEM. There is no magic way out. Illinois must enact comprehensive, meaningful and permanent tax reform that modernizes tax policy, makes it comport with the principles of a sound tax system and raises adequate revenue to fund core services into the future.

The good news is that by expanding the state's sales tax base to include services, amending the Constitution to permit graduated income tax rates and taxing some retirement income, Illinois can raise the additional revenue needed to sustain public service investments, while at the same time reducing or not changing the tax burden for the bottom 94 percent of families in Illinois with modest increases in tax burden for the top 6 percent of filers with incomes of over $150,000.[39] The only thing standing in the way is politics.

ENDNOTES

[1]CTBA, "Analysis of Proposed Illinois FY2013 General Fund Budgets," April, 2012.
[2]"Illinois Governor Signs Budget, Vetoes Prison Funds," Chicago Tribune, June 30, 2012.
[3] P.A. 96-1496 signed into law on January 13, 2011.
[4] Budgeting for Results Commission Report, November 2011.
[5]"The Taxpayer Accountability and Stabilization Act," P.A. 96-1496, January 13, 2011.
[6]Commission on Government Forecasting and Accountability, FY2012 Budget Summary, page 66; and BLS Employment Cost Index.
[7] P.A. 097-636 passed December 16, 2011. Bill Status and Fiscal Note for House Amendment No. 3 (Dept. of Revenue) estimates are $263 million in FY2012 and $325 million in FY2013.
[8]BLS Midwest Urban Medical Care Consumer Price Index average increase from FY2002 to FY2012. Index values for February to June 2012, are estimated as having grown by same rate as index values for February to June 2011 from February to June 2010.
[9]On the Henry J. Kaiser Family Foundation State Health Facts website Illinois is ranked ninth lowest in Medicaid reimbursement rates. Link: http://www.statehealthfacts.org/comparetable.jsp?typ=2&ind=916&cat=4&sub=154&sortc=4&o=a.
[10] Waiting on a comprehensive list from GOMB staff. As soon final list is received, endnote will be updated accordingly
[11] CTBA, *Funding Our Future*, Op. Cit., Section 3.
[12]As shown in Figures 2 and 5 for FY2013, and based on the same data acquired from Illinois Senate Staff, June 2012, for FY2012.
[13]Office of Management & Budget (GOMB) "Three Year Budget Projection (General Funds), FY13-FY15," February, 2012.
[14] The most accurate way to estimate long term growth in macroeconomic variables that depend on economic output is to look at two comparable points in the business cycle. FY2002 and FY2009 were the "low points" ("troughs") of the two most recent business cycles.
[15]FY2000 to FY2011 from COGFA FY2012 and earlier Budget Books, and FY2012 and FY2013 from COGFA "*FY2013 Economic Forecast and Revenue Update*," February 28, 2012.
[16] Illinois Department of Healthcare and Family Services Five Year Medical Assistance Budget Outlook General Revenue and Related Funds Only, "Other Related Funds Spend," March, 2012.
[17] Recovery.Illinois.gov; Illinois' official ARRA website explains: Increased federal matching dollars for Medicaid (Title XIX) services, available from February 2009 through December 2010. Enhanced matching rate is 61.88%. Enhanced matching dollars drawn are based on Medicaid spending.
[18] Powers, E.T., Powers, N.J., & Merriman, D. (2007, March). State funding of community agencies for services provided to Illinois residents with mental illness and/or developmental disabilities. Chicago: Institute of Government and Public Affairs, University of Illinois.
[19] CTBA calculations using Zandi1.31 state government spending multiplier.
[20] CTBA analysis of Illinois State Board of Education, FY2013 Budget Request, Education Reform Budget Comparison to FY2013 Governor's Budget.
[21] CTBA, "*Money Matters: How the Illinois School Funding System Causes Significant Inequities that Impact Most Students in the State*," Sept. 2008.
[22] Bureau of Economic Analysis, Regional GDP News Release, March 28, 2012.
[23]CTBA calculation from COGFA FY2009 Budget Summary, FY2013 P-12 appropriation from SB 2413, BLS Employment Cost index, DCEO Illinois population estimates.
[24] Recovery.Illinois.gov; Illinois' official ARRA website explains: Increased federal matching dollars for Medicaid (Title XIX) services, available from February 2009 through December 2010. Enhanced matching rate is 61.88%. Enhanced matching dollars drawn are based on Medicaid spending.
[25]305 ILCS 5/5-5f
[26] In addition to SB2840, the final Medicaid Legislative package includes SB2194, HB5007, and SB3397.
[27] See "Five Year Medical Assistance Budget Outlook," DHFS, April, 2012.
[28] Article XIII, Section 5 of the Illinois Constitution. See also: Madir, Eric M. "*Is Welching on Public Pension Promises an Option for Illinois? An Analysis of Article XIII, Section 5 of the Illinois Constitution.*"
[29]COGFA November 2012 Monthly Briefing, p. 9.
[30] Ibid.
[31]Assets are calculated using the actuarial value of assets method, which smoothes losses/gains over five years.
[32] Pension contributions for SERS, JRS, and GARS are lumped together as one category because this is how it appears in the FY2013 GOMB Budget Book; however, it should be noted that this category is the sum of three separate pension contributions. In order for comparisons with GOMB figures, the pension contributions for SERS, JRS, and GARS are lumped together as one category elsewhere in this Report.
[33] Figures for General Fund contributions to SERS for FY 2012 and FY2013 were obtained from SERS by CTBA.
[34]Illinois Economic and Fiscal Commission. March 1995. "Fiscal Year 1996 Pension Funding Requirements," p. 3-5
[35] The category 'other factors' covers "miscellaneous actuarial factors such as rates of termination, disability, and pre-and post-retirement mortality" (ibid.).
[36]COGFA.2011. "*A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2010*,"p. 8.
[37]COGFA.2012. "*Report on the Financial Condition of the Illinois Public Employee Retirement Systems*," p. i.
[38] Calculation done by the Center for Tax and Budget Accountability using COGFA's Retirement System Funding Projections from "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 2011." These projections are total state contributions and include both General Fund and non-General Fund contributions.
[39] "The Case for Creating a Graduated Income Tax in Illinois," Center for Tax and Budget Accountability, February, 2012: http://www.ctbaonline.org/New_Folder/Budget,%20Tax%20and%20Revenue/CTBA%20Graduated%20Income%20Tax%20FINAL%20Report%20Feb%202012.pdf.