The Civic Federation

177 North State Street, Suite 400, Chicago, IL 60601 ▪ 312.201.9066 fax 312.201.9041 ▪ civicfed.org

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For more information, contact Laurence Msall at (312) 201-9044

CIVIC FEDERATION OPPOSES GOVERNOR'S RECOMMENDED BUDGET
Plan Uses Revenue from Increased Income Tax Rates on New Homeowners' Grant

(CHICAGO) – In a new report released today, the Civic Federation's Institute for Illinois' Fiscal Sustainability opposes Governor Quinn's recommended budget for FY2015 because it uses revenue from extending the 2011 temporary income tax increase for new spending. The State's fiscal crisis demands that any increased revenue be used to stabilize State finances by significantly reducing its massive backlog of unpaid bills. The Institute's full 36-page report is available at www.civicfed.org.

Under existing law, the State would lose $1.8 billion in General Funds revenues in FY2015 when the 2011 income tax rate increases are phased out beginning in January 2015. The Civic Federation is encouraged that the Governor's plan addresses this fiscal cliff by extending the higher rates. The alternative – recommending budget cuts that are not based on specific public policy proposals – may be expedient but does not solve the State's fiscal problems.

"The Governor's plan appropriately recognizes that the State's finances cannot withstand a dramatic reduction in revenues next year," said Civic Federation President Laurence Msall. "However, new spending initiatives are just as contradictory to the State's fiscal reality -- especially those financed by borrowing."

The Civic Federation opposes the Governor's plan to spend $1.3 billion on a new homeowners' grant program that would replace the State's existing property tax credit on individual income taxes. Currently, the State provides an income tax credit for residential homeowners equal to 5.0% of the property taxes paid to local governments on their primary residence. The net cost of replacing this credit with the Governor's proposed homeowners' grant program is expected to be $715 million in FY2015.

The additional spending would require the State to borrow money to balance the operating budget, even after extending the higher income tax rates. The Governor proposes closing a $170 million budget gap in FY2015 by borrowing $650 million from funds outside of the State's General Funds and repaying those funds with interest over the next two fiscal years. Although interfund borrowing is a low cost alternative to accessing transitional capital markets, this option should be reserved for financial emergencies and not to compensate for increased spending.

The Federation commends the Governor's publication of a five-year budget plan, a first step toward true long-term financial planning. However, the policy choices made in the plan are projected to leave a substantial backlog of bills at the end of the five-year period and no strategy is detailed to establish a meaningful rainy day fund.

In its recent State budget roadmap for FY2015, the Federation recommended that the 2011 tax rate increases be extended for one year and then scaled back by 20% over the following three years. The five-year plan also broadens the income tax base to include federally taxable retirement income. In the Federation's plan, additional revenues would be used to allow modest growth in agency spending while eliminating the $5.4 billion backlog of unpaid bills, providing relief to local governments and building up reserves to cushion against future economic downturns. The Federation continues to urge State lawmakers to adopt a similarly comprehensive approach to stabilizing Illinois finances.

The Institute for Illinois' Fiscal Sustainability at the Civic Federation is made possible by a generous grant from the John D. and Catherine T. MacArthur Foundation. The Institute's mission is to improve the State's decision-making process by providing timely fiscal policy analysis and recommendations to State officials, the media and the public through education and digital outreach. Please visit www.civicfed.org/iifs for more information.