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Institute for Illinois' Fiscal Sustainability at the Civic Federation

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

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

GOVERNOR'S BUDGET PROPOSES INCREASED SPENDING, ARTIFICIALLY INFLATED REVENUES, EXPENSIVE BORROWING *Civic Federation Opposes Unbalanced Budget and Urges Spending Restraint*

(CHICAGO) A new report by the Institute for Illinois' Fiscal Sustainability at the Civic Federation has found that Governor Quinn's proposed budget is unbalanced by a total of \$2.4 billion when artificially inflated revenues of \$970.9 million are taken into account. The 98 page analysis of the Governor's proposed \$52.7 billion FY2012 budget was released today on the Civic Federation website at www.civicfed.org.

The analysis finds that the Governor's budget overestimates revenues by \$976 million because it does not set aside enough funds to pay for FY2012 anticipated income tax refunds and the refund backlog. When added to the \$1.45 billion budget gap caused by the Governor's recommended spending increases, the total budget shortfall for FY2012 is \$2.4 billion. "The Civic Federation rejects the proposed underfunding of the refund fund because it increases State spending beyond what is realistic," said Laurence Msall, president of the Civic Federation.

"While the Civic Federation is encouraged that Governor Quinn and the General Assembly have taken some steps to resolve the State budget crisis, we cannot support an unbalanced budget that increases appropriations despite a multi-billion backlog of unpaid bills," said Msall. "Alarming, even though the State raised income taxes significantly this year, the new revenues would not be enough to support the Governor's budget."

Although the Governor's proposal reduces appropriations in some areas by \$1.0 billion, these cuts are offset by \$2.1 billion in appropriations increases elsewhere in the budget. The Governor would close the budget shortfall and reduce the backlog of refunds, unpaid bills and Medicaid and employee health insurance claims by using part of the proceeds of \$8.75 billion in proposed new borrowing. The Civic Federation rejects this plan, which would cost taxpayers \$3.4 to \$4 billion in new interest costs over the next 15 years and would make the State's financial condition worse. To truly set its finances on a stable path, **the State must stop pushing its current financial problems into the future.**

The Civic Federation urges the General Assembly to reject the Governor's budget increases and borrowing proposals and rely instead on budgetary restraint to honor its commitments to vendors, local governments and taxpayers. By limiting spending increases in FY2012 and appropriations increases in FY2013 and FY2014, the State can generate budget surpluses to reduce unpaid bills—without borrowing or manipulating revenue estimates. If the State wishes to pay its creditors sooner, it might consider a short-term borrowing plan that could be paid back prior to the scheduled partial sunset of the income tax increases in FY2015.

The Federation supports the Governor's plan to pay contributions to the pension funds out of the operating budget for the first time since FY2009. The State's total pension-related expenditures in FY2012, including both the \$4.6 billion statutory contribution and debt service, will be \$6.2 billion or 17% of all General Funds expenditures. "Such an enormous expenditure for pensions is a strong signal that the existing state pension program and its massive liabilities are unaffordable," said Msall. The Civic Federation therefore recommends that for current employees, the State should reduce non-vested benefits, increase employee contributions or both.

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.



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