

Officers

Thomas McNulty, *Chairman*
A.G. Anglum, *Vice Chairman*
Mark Davis, *Vice Chairman*
Thomas Livingston, *Vice Chairman*
Joseph B. Starshak, *Treasurer*
Laurence J. Msall, *President*
Lise Valentine, *Vice President*



Press Release

Institute for Illinois' Fiscal Sustainability
at The Civic Federation

IMMEDIATE RELEASE MONDAY, MAY 11, 2009

For more information, call Laurence Msall at 312.201.9044

CIVIC FEDERATION COMMENDS QUINN FOR COURAGEOUS STEP TOWARD PENSION REFORM

Urges General Assembly to Reject Proposed Illinois Budget

CHICAGO (May 11, 2009) –The Civic Federation **rejects** Governor Pat Quinn's proposed \$52.9 billion FY2010 operating budget because it raises taxes without fixing the state's core problems. The Federation's new Institute for Illinois' Fiscal Sustainability released today a 90-page analysis of the budget, offering alternative proposals that would more effectively stabilize the state's finances while making the full certified pension contribution of \$4.5 billion. Copies of the report are available for download free of charge at www.civicrofed.org.

The Civic Federation **commends** Governor Quinn for proposing bold changes to the state's nearly insolvent pensions. The Federation strongly endorses the governor's proposed move to a two-tiered pension system, a reform this organization has advocated for many years. The Federation **urges** the governor to reconsider his decision to eliminate increased pension contributions for current and future state workers from his budget. The sheer scale of the state's financial debacle will require shared sacrifice by all Illinoisans; that sacrifice must include all current and future state employees.

Illinois faces the formidable task of bridging a two-year budget deficit of \$11.6 billion, but the governor's proposed budget does not focus sufficiently on overcoming the fiscal crisis, diverting money into policy objectives instead. The budget proposes only \$1.3 billion in spending cuts, a level the Civic Federation finds inadequate. Moreover, the proposed income tax increase of \$3.15 billion will not be reserved to reduce the state's staggering existing liabilities. This was one of the main recommendations the Federation made in the state budget roadmap it released in March. Instead, the budget increases spending by 12.3% over estimated FY2009 expenditures and funds an under-planned and unprecedented capital program of \$26 billion.

To make matters worse, the state proposes to reduce contributions to its woefully underfunded pension systems by \$3.0 billion over two years, an irresponsible action that endangers the state's fiscal solvency. Under current pension laws the state's FY2011 required pension contribution is estimated at \$5.4 billion, so if it fails to make the \$4.0 billion certified contribution this year, it will be enormously difficult for the state to find the political will to make the full payment in FY2011 and beyond. "The state's unfunded pension obligations are major contributors to Illinois' growing budget deficit," said Laurence Msall, president of The Civic Federation. "Shorting the state's pension contribution while raising taxes to address the state's structural budget deficit crisis is illogical and counterproductive."

Board of Directors

Catherine M. Adduci
Allan Ambrose*
Bridget M. Anderson*
Adrienne Archia*
Murray E. Ascher*
Alicia Berg
Abel E. Berland ☼
Brian A. Bernardoni
Roger Bickel
J.D. Bindenagel
Aileen Blake
Douglas H. Cameron
Whitney Carlisle
Robert J. Christie
Richard A. Ciccarone*
Jerry Cizek ☼
Elizabeth Gallagher Coolidge
Amy Anderson Day
Kevork Derderian ☼
Julian C. D'Esposito
Jon B. DeVries
Thomas H. Donohoe
Martin L. Eisenberg*
Brian D. Fabes
Timothy J. Faerber
Timothy Fair
Stephen Friedman
Charles R. Gardner*
Carol W. Garnant ☼
Sarah Garvey*
Anthony Gedeller
Peter G. Glick
Judith A. Gold*
Patrick Hagan
Philip Hale
Albert C. Hanna
Bruce T. Hopple
Margaret A. Houlihan
Lorna Brett Howard
Thomas J. Klutznick
James Kranjc*
Stephen Legatzke
Michael A. Lovett
William Mack*
Glenn Mazade
Susan McKeever*
Eileen Mitchell*
Fred H. Montgomery*
Timothy E. Moran
Monica M. Mueller
Michael E. Murphy ☼
Bert Nuehring*
Michael F. O'Brien
Holly O'Connor
Gregory O'Leary
William Paparella
Robert Pasin
Kathleen Pasulka-Brown
Dorice Pepin
Donovan Pepper
John H. Peterson
Erika Poethig
Alexander I. Rorke
Scott Saef ☼
John Sciacotta
James E. Spiotto*
Caryn Stancik
Barbara Stewart ☼
Theodore M. Swain*
Kent A. Swanson
Courtney A. Thompson
Thomas C. Vanden Berk
Robert Vihon*
Sue E. Wallace*
John F. Ward, Jr. ☼
Jerrold Wolf
Philip Zinn*

*Executive Committee

☼ Past Chairmen's Council

- more -

The Federation's alternative proposal to balance the budget outlines options that would allow the state to make the full certified pension contribution and target all new revenues to pay down existing obligations. The plan calls for a scaled back income tax increase and deeper budget cuts. "The state has reached a tipping point where it can no longer budget according to what is politically expedient," said Msall. "Whether or not state officials wish to recognize it, the only justifiable purpose for a tax increase is to pay down the state's massive existing obligations, including Medicaid providers and the staggering \$79 billion shortfall in state pension funds."

Provided that pension and employee healthcare reforms and deeper spending cuts are implemented, the Civic Federation could support a reasonable increase to the state income tax of one percentage point for the personal income tax and 1.6 percentage points for the corporate income tax, which would raise approximately \$3.6 billion. The Federation supports some of the governor's budget-balancing mechanisms such as using \$4.8 billion in federal stimulus funds, fund sweeps, and certain tax changes. The governor and General Assembly will need to make difficult choices to balance the remaining deficit of nearly \$4.25 billion. The Civic Federation suggests that if the governor and General Assembly are not able to find the will to make additional cuts in state spending, they should consider broadening the base of the state's two largest tax sources by eliminating the exemption on retirement income to be in accord with federal and most state tax codes and/or re-impose the state sales tax on food and drugs as is currently done by many municipalities in Illinois.

"These are not easy choices and the Federation does not lightly propose any tax increase in the middle of a recession," said Msall, "but it is important to note that the Civic Federation's alternatives add up to a budget of \$48.55 billion that would still increase state expenditures by 3.3% over last year's estimated spending." The reasoning behind the Federation proposal is to use revenue enhancements to set Illinois on the path to fiscal sustainability, not push its obligations onto future generations.

The Federation **opposes** the governor's \$26 billion *Illinois Jobs Now!* capital plan as it is not tied to a comprehensive planning process and is unaffordable now and in the future. The Civic Federation believes that capital investment is desperately needed in Illinois to address deteriorating infrastructure and create jobs. Unfortunately, the state has failed to prepare and make publicly available a comprehensive capital improvement plan (CIP) that assesses needs and prioritizes projects according to those needs. From a fiscal perspective, the Federation is very concerned that the governor's proposal fails to provide an adequate revenue stream to pay the debt service on the capital programs after the third year and extends all the state's current capital debt, which would have expired within the next 15 years, to 2045.

The Civic Federation insists the state must create a CIP so it can spend taxpayer-supported funds efficiently and effectively. "Citizens deserve concrete plans before being asked to support an unprecedented \$26 billion capital program," said Msall. The Federation is also concerned that the large amount of debt proposed in the capital budget would jeopardize future state borrowing for decades to come.

###