Institute for Illinois' Fiscal Sustainability at the Civic Federation

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ILLINOIS' FINANCIAL FUTURE UNCERTAIN AFTER TAX INCREASE
Civic Federation Urges General Assembly to Reject Expensive $8.75 Billion Borrowing Plan

(CHICAGO) The Civic Federation's Illinois research institute warns that a large tax increase alone has not fixed the state's broken budget. The Federation's new FY2012 Budget Roadmap, released ahead of Governor Quinn's budget address, analyzes the state's current fiscal position, critiques Governor Quinn's three-year budget plan and provides recommendations to improve the state's finances. The full 44-page report is available at www.civicfed.org/iifs.

"The Civic Federation opposes Governor Quinn's plan to borrow $8.75 billion over 15 years for unpaid bills and to prop up spending in FY2012," said Laurence Msall, president of the Civic Federation. "The proposal is enormously expensive and will create huge budget problems starting in FY2015." The Federation estimates that the borrowing would cost more than $3.4 billion in total additional interest costs over the life of the bonds. Moreover, large increases in payments are scheduled just as the tax increase sunsets. If the new borrowing is approved, the state's total debt burden will have increased 467.1% since FY2001, from $8.4 billion to nearly $48 billion.

Instead, the Civic Federation recommends that the state pay down its backlog of bills through fiscal restraint, particularly by holding the line on spending through the end of FY2011. By following this plan, and limiting spending increases to 2% annually or less between FY2012 and FY2014, the state could reduce its payment cycle to 60 days by FY2014. The Federation's plan would also ensure that the state's statutory pension contribution is made out of the state's general funds, ending the expensive pattern of borrowing to fund the pensions.

In the analysis, the Civic Federation notes that it is concerned that the spending caps approved by the General Assembly as part of the tax increase legislation are significantly greater than the State's projected revenues. If the state spends at the cap levels, it will run a deficit. Even though Governor Quinn's three-year budget plan projects spending levels that are below the caps, the state will still run operating shortfalls through FY2014 if his plan is enacted. The deficits are due to the Governor's proposed increases to appropriations and required increases in debt service and pension payments. The Governor's plan closes the shortfalls with part of the proceeds of the $8.75 billion in borrowing for operations. The Civic Federation urges the Governor and General Assembly to work together to create a more sustainable budget plan for FY2012 and beyond.

In addition to recommendations for the FY2012 budget, the Federation proposes measures to further reform the state's pension system, which continues to be one of the main drivers of the state's budget crisis. "Illinois' pension system is unaffordable," said Msall. "While the pension reforms for new hires enacted in 2010 are an important first step, the Civic Federation believes that the state must also reduce non-vested benefits for current employees and increase employee contributions to their pensions to ensure the state will be able to provide for its current and future retirees."

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.