The Civic Federation NEWS RELEASE

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

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

CIVIC FEDERATION OPPOSES UNBALANCED $52 BILLION FY2011 ILLINOIS BUDGET

Spending Plan Would Make Fiscal Crisis Worse

(CHICAGO) The Civic Federation's Institute for Illinois' Fiscal Sustainability released today its analysis of Governor Quinn's recommended FY2011 State of Illinois budget. The Federation **opposes** the Governor's budget because it is unbalanced, relies too heavily on borrowing, doesn't address $6.2 billion in unpaid bills, and would exacerbate the State's structural deficit. The full budget analysis, including a review of the deficit, capital program, and the pension reform bill, is available on our website, www.civicfed.org.

"Unfortunately, the Governor's recommended budget falls short of the goal that must be a top priority for all state leaders: to stabilize the State's finances," said Laurence Msall, president of the Civic Federation. "Borrowing five to six billion dollars for operating expenses neither balances the budget nor helps ensure next year's budget crisis will be any better. The Civic Federation urges our leaders in Springfield to produce a full-year, balanced, and sustainable budget for FY2011 that does not make the situation worse."

The Civic Federation has serious concerns about many aspects of the Governor's initial recommended FY2011 operating budget, which calls for borrowing $4.7 billion. The Governor and his budget team have now also indicated that the State will seek to borrow up to $5.7 billion.

Borrowing for operations increases the cost of government by adding hundreds of millions of dollars in debt service payments to future budget years and by allowing government expenditures to exceed revenues generated by the State. The Civic Federation strongly opposes borrowing to balance the State's budget because debt is not a sustainable funding source. Borrowing could trigger downgrades to the State's debt by the rating agencies. A lower debt rating would further increase the State's cost of borrowing and therefore the cost of government to taxpayers.

The Governor's original recommended budget does reduce some spending by state agencies—primarily on education—by $2.2 billion, but the reductions are partly offset by $636 million in proposed increases. The Governor also proposed a reduction to local governments' share of income tax revenues. The Civic Federation has strong reservations about these recommended cuts and formula changes because they shift costs to other governments, increasing pressure on those governments to raise property and other local taxes.

Moreover, in his budget address the Governor proposed a one percentage point income tax increase to avert the education and local government funding cuts. Notably, the revenues from the tax increase would not be spent to fully fund the pensions or to significantly reduce the $6.2 billion backlog of unpaid bills that are threatening state service providers.

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Recent alternative budget proposals floated by the Governor's Office of Management and Budget would increase total borrowing for operations by $1 billion and call for funding the entire pension contribution through debt. The new plan also makes unspecified additional cuts and suggests raising additional revenue through consumer and business tax changes. The Civic Federation opposes the Governor's alternative proposal because it relies even more heavily on borrowing and still proposes to raise taxes primarily to avert spending cuts rather than pay down the deficit or reduce the State's other liabilities.

The Governor's budget recommendation also includes a reauthorization and expansion of spending on capital projects. The Civic Federation continues to oppose the $30.5 billion capital budget approved by the General Assembly last year because of our belief that it is irresponsible to borrow $19 billion of new debt to fund capital projects over the next five years without a strategic plan for those investments and while the State cannot afford to pay its bills.

In the analysis, the Civic Federation commends Governor Quinn and the Illinois General Assembly for enacting a two-tiered pension system for state and some local government employees hired after January 1, 2011. The legislation is a significant step toward meaningful pension benefit reform. However, the Federation further urges the State to implement additional pension reforms, including a two-tiered system for police and fire pensions and changes to the funding of all public pensions. The continued failure of the State to adequately fund its actual pension costs from current revenues will only expedite the need to reduce benefits for existing employees.

"Setting Illinois on the path to fiscal sustainability will require deeper spending cuts, rejection of borrowing and debt to fund operations, fully funding the State's pension obligations, and a real commitment to eliminating Illinois' unpaid bills," said Msall. For a full description of the Civic Federation's recommendations to end Illinois' fiscal crisis, read *A Fiscal Rehabilitation Plan for the State of Illinois*, available at http://civicfed.org/iifs/illinoisrehab.

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.