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ILLINOIS' UNPAID BILL BACKLOG PROJECTED TO REACH \$22 BILLION BY FY2018

State urgently needs long-term plan to address rising pension and Medicaid costs, loss of income tax revenues

(CHICAGO) – An analysis released today by the Civic Federation's Institute for Illinois' Fiscal Sustainability shows the State of Illinois is on track to accumulate nearly \$22 billion in unpaid bills by FY2018 unless action is taken to curb rising pension costs and plan for increases in the Medicaid program. The five-year projections in the Federation's FY2014 Budget Roadmap are intended to indicate the long-range consequences of the State's current revenue trends and spending pressures. The full 63-page report is available at www.civicfed.org/iifs.

In January 2012 the Federation's five-year outlook warned that Illinois' backlog of unpaid bills could reach nearly \$35 billion. The State's five-year fiscal outlook has since improved, largely due to significant Medicaid program reductions authorized in June 2012. "This long-range outlook shows just how far the State has to go in order to stabilize its finances," said Laurence Msall, president of the Civic Federation. "Lawmakers need to adopt a long-term mindset and restructure the unaffordable pension systems that are keeping the State in its fiscal downspin."

Illinois is headed for a substantial loss of revenue beginning in 2015, after the partial rollback of the temporary income tax increase enacted in 2011. On January 1, 2015 the personal income tax rate is scheduled to decline from 5.0% to 3.75% and the corporate rate will decline from 7.0% to 5.25%. The first full budget year under the lower rates will be FY2016. With the resulting decline in revenues and growing annual pension costs, the State's operating deficit is projected to increase dramatically to \$4.2 billion in FY2018, compared with a modest surplus in FY2013.

Without action to curtail rising pension costs, the Federation's analysis finds that the State will be unable to stabilize its fiscal condition. Pension costs, including annual contributions and debt payments on pension bonds, are projected to consume nearly one third of State-generated revenues by FY2018. "We've reached a breaking point where the State will not be able to make its future pension payments without sacrificing basic government services," said Msall. The Civic Federation urges lawmakers to immediately enact comprehensive pension reforms, including significant limits on automatic annual benefit increases and a gradual shift of normal pension costs to actual employers.

The report also details the ongoing transformation of Illinois' Medicaid program, which includes significant program reductions, a shift to managed care for more recipients and potential implications related to the Affordable Care Act (ACA). The Civic Federation recommends that the State expand eligibility for Medicaid under the ACA, allowing a significant increase in federal resources for the program. Regardless of whether Medicaid expansion under the ACA is approved, the State is expecting increased program costs as healthcare expenses continue to rise and publicity surrounding the ACA drives previously Medicaid-eligible individuals to enroll for the first time.

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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