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## Institute for Illinois' Fiscal Sustainability at the Civic Federation

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### FISCAL YEAR 2014 A "LOST OPPORTUNITY" FOR ILLINOIS *Failure to address pension crisis, plan for upcoming revenue loss threatens to erase progress on State's backlog of unpaid bills*

(CHICAGO) – An analysis released today by the Institute for Illinois' Fiscal Sustainability at the Civic Federation warned that the FY2014 budget may represent a high-water mark with future years bringing sharp reductions in revenues and further consequences of the unresolved pension crisis. The legislature's failure to address these critical issues threatens to erase progress made on the State's backlog of unpaid bills, which is projected to decline to approximately \$5.8 billion by the end of FY2014. The full 73-page report is available at [www.civicfed.org/iifs](http://www.civicfed.org/iifs).

"This year was a lost opportunity as legislators failed to prepare for the extreme financial challenges everyone knows are on the immediate horizon," said Laurence Msall, president of the Civic Federation. "We see some progress this year on the backlog of unpaid bills, but nothing to address the unresolved pension crisis or to plan for the revenue loss coming next year." Fiscal year 2014 is the last full year before the State faces dramatic reductions in revenues due to the scheduled partial rollback of income tax rate increases in January 2015.

Pension costs in FY2014 total \$7.65 billion, including annual contributions and payments on past pension bonds. This represents 24.3% of State-source General Funds revenues, an already unsustainable level that is projected to rise sharply in future years without reform. The General Assembly's failure to approve comprehensive pension changes during its spring 2013 session triggered further reductions in the State's credit rating. With the State's unfunded pension liability of \$96.8 billion and funded ratio of 39.0% at the end of FY2012, Illinois is currently the lowest rated state by all three major credit rating firms – only one downgrade away from falling out of the "A" category.

The FY2014 budget does not show the fiscal discipline required by the State's perilous financial condition. Rather than reining in spending and using any surplus to further reduce the backlog of bills, the budget includes current year spending that exceeds the Governor's recommendation by more than \$350 million.

Despite these shortcomings, the FY2014 budget benefits from a decision to set aside revenues in FY2013 and FY2014 to pay down outstanding bills. These efforts were aided by unexpectedly high income tax collections in April 2013, a one-time event related to taxpayers' avoidance of higher federal tax rates. The backlog of unpaid bills is projected to total approximately \$5.8 billion at the end of FY2014. That is down from \$8.8 billion at year-end FY2012 and \$6.3 billion at year-end FY2013 but still represents more than 16% of the State's total General Funds revenues.

The Institute's full analysis includes a summary of budget negotiations from the release of Governor Quinn's budget recommendation in March through the creation of a bipartisan conference committee in June and the Governor's decision in July to veto lawmakers' pay due to the General Assembly's failure to pass pension reform.

*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](http://www.civicfed.org/iifs) for more information.*



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