Institute for Illinois' Fiscal Sustainability at the Civic Federation

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CIVIC FEDERATION PROPOSES COMPREHENSIVE PLAN TO STABILIZE ILLINOIS FINANCES BY END OF FY2019

(CHICAGO) – In a report released today, the Civic Federation's Institute for Illinois' Fiscal Sustainability proposes a comprehensive three-year plan that addresses Illinois' ongoing financial crisis with painful but necessary spending limits and revenue enhancements. The full 55-page report is available at www.civicfed.org.

More than seven months into the current fiscal year, the State of Illinois continues to operate without a budget. However, virtually all of the State's projected FY2016 revenues will be spent through statutory requirements, consent decrees, court orders and appropriated funds for elementary and secondary education. This leaves little for the areas of government that have gone unfunded, including all higher education and major human services programs. If current revenue and expenditure policies continue, the State's backlog of bills could grow to $25.9 billion by the end of FY2019.

"Systemic payment delays and the ongoing budget impasse in Springfield have only exacerbated our State's financial woes, and there are no more politically popular solutions left to explore," said Laurence Msall, president of the Civic Federation. "Despite this dire situation, our roadmap shows that with dedicated action and shared sacrifice, it is possible to enact a comprehensive plan that will get Illinois back on sound financial footing by FY2019."

The Federation proposes the following recommendations as part of a comprehensive three-year plan:

1. **Limit Spending and Pay Down Bills**: The State should control spending to generate budget surpluses that would allow it to pay down the backlog of unpaid bills by the end of FY2019. Projected spending for FY2016 starts at a low level that is more than $1 billion below previously estimated maintenance levels.
2. **Revenue Cliff**: The State should retroactively increase the income tax rate to 5.0% for individuals and 7.0% for corporations as of January 1, 2016, up from 3.75% and 5.25%, respectively, in order to address the fall in revenues resulting from the income tax rate rollback on January 1, 2015.
3. **Broaden the Income Tax Base to Include Some Retirement Income**: Out of the 41 states that impose an income tax, Illinois is one of only three that exempt all pension income. The State can no longer afford to provide this generous benefit and should eliminate the income tax exemption for non-Social Security retirement income from individuals with a taxable income of more than $50,000.
4. **Expand the Earned Income Tax Credit to Provide Assistance to Low Income Residents**: To help soften the impact of the State's fiscal crisis on low income residents, the Civic Federation proposes an increase in the State's Earned Income Tax Credit from 10% of the federal credit to 15% of the federal amount.

5. **Expand the Sales Tax Base and Reduce the Retailer's Discount**: The Civic Federation recommends that Illinois temporarily suspend its sales tax exemption for food and nonprescription drugs, enact a new general consumer services tax and cap reimbursement to retailers for collecting sales tax revenues.
6. **Establish Comprehensive Teachers' Pension Funding Reform**: There is no good public policy reason for Illinois to maintain two separate funds for public school teachers' pensions. The Chicago Teachers' Pension Fund and Teachers' Retirement System should consolidate, providing more equitable pension funding for all teachers and helping to stabilize Chicago Public Schools' finances.
7. **Approve Constitutional Amendment Limiting Pension Protection Clause**: The Civic Federation urges the General Assembly to draft and approve a proposed amendment to the Illinois Constitution for the November 2016 statewide ballot specifying that the clause in the Illinois Constitution protecting public pension benefits applies only to accrued benefits.
8. **Make Supplemental Pension Payments**: In order to mitigate the impact of the State's inadequate statutory pension funding plan, the State should make supplemental payments corresponding to the reduced debt service obligations associated with retiring Pension Obligation bonds beginning in FY2019 until all five State retirement systems are 100% funded.

Only after the State eliminates its backlog of bills and begins to make progress toward building a rainy day fund should it explore reversing some of the tax policy changes that were necessary to end the crisis as part of a comprehensive look at the State's tax system.

It is important to note that with less than six months remaining in the current fiscal year to address an operating shortfall of $4.6 billion, there are no practical measures that would completely balance the FY2016 budget and prevent an increase in the backlog of unpaid bills by the end of FY2016. Unlike FY2015, there are no easy stop-gap fixes such as interfund borrowing or fund sweeps that are available or adequate to close such a large operating shortfall.

Savings from pension reforms are no longer possible due to the Illinois State Supreme Court's ruling that the changes were unconstitutional. Only difficult choices remain for the State.

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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.