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FOR IMMEDIATE RELEASE – MAY 13, 2013

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CIVIC FEDERATION SUPPORTS GOVERNOR'S BUDGET PROPOSAL AS A STOPGAP UNTIL PASSAGE OF COMPREHENSIVE PENSION REFORM *State's pension costs to consume nearly 25% of State-source revenues in FY2014*

(CHICAGO) – In a new report released today, the Civic Federation's Institute for Illinois' Fiscal Sustainability supports Governor Quinn's proposed budget for FY2014, but warns the proposal is only a stopgap that further demonstrates the urgent need for comprehensive pension reform. The \$62.4 billion proposal balances revenues and expenditures without borrowing and makes progress toward reducing the State's backlog of unpaid bills. The full 107-page report is available at www.civicfed.org.

"This budget is overwhelmingly constrained by the State's pension costs," said Civic Federation President Laurence Msall. "A long-range plan to substantially reduce these unaffordable costs is the only way to protect essential services for Illinois residents while keeping our public employee pension funds solvent."

Despite temporary income tax increase and significant reductions in agency spending, the State of Illinois is burdened with unsustainable pension costs and a mountain of bills accumulated during the economic downturn. The State's pension costs, including debt payments on past borrowing for pensions, will consume nearly 25% of State-source General Funds revenues in FY2014. Without reforms, this percentage will grow to approximately 35% by FY2033. The Civic Federation continues to urge the General Assembly to enact comprehensive pension reforms to significantly reduce the State's pension obligations including the following: reduced automatic annual benefit increases, phased-in higher retirement ages, caps on pensionable salary and increased employee contributions.

Although the Governor's recommended FY2014 budget pays down more than \$800 million in unpaid bills, the State is still expected to end the year with a backlog of \$6.8 billion. This continued backlog hurts vendors, social service agencies and local governments, which must wait for payment from the State. The Civic Federation warns that the State's unpaid bills will become even more burdensome after January 1, 2015, when the partial rollback of the temporary income tax increase is scheduled to begin. As the constraints of this budget proposal demonstrate, there is little chance to address the backlog until the State's unsustainable pension costs are reduced.

The Civic Federation further cautions that the Governor's FY2014 budget might overstate savings on retiree health insurance negotiated with labor unions, potentially leading to a larger than projected backlog of bills. The proposed budget assumes cost projections that have yet to be finalized in a signed contract or confirmed by publicly available evidence. Although retirees will pay a larger share of their health insurance costs in FY2013 and FY2014, the benefit remains too costly in light of the State's financial condition. The Federation recommends increasing the health insurance premiums paid by retirees to a cost sharing level that is based on actual health insurance costs and is closer to the national average for large employers.

The full report also includes recommendations for expanding Medicaid eligibility under the Affordable Care Act, establishing a process for the executive and legislative branches to develop a consensus revenue estimate prior to publication of the Governor's budget, and developing a formal capital improvement plan and economic development policy.

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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