

# Facing Fiscal Reality

A plan for reality-based budgeting

MARCH 2011



ILLINOIS SENATE REPUBLICAN CAUCUS

# Deficit



## Senate Republican Caucus

*"As Senate Republicans, our goal is to encourage job growth by developing an efficient, transparent, ethical state government with less regulation and lower taxes. We must leave a legacy of responsible government that will last for generations."*

### *Senate Republican Mission Statement*

Illinois has not solved its financial crisis and, in fact, is racing toward a budget cliff that could jeopardize the financial stability of the state far into the future.

Many in Illinois find it incomprehensible that after a 67% income tax increase, Illinois should find itself staring into an abyss of multi-billion dollar deficits. Unfortunately, that precisely describes Illinois' current state of financial affairs.

Because there has been no legitimate review of state spending, the massive tax increase solved nothing. Spending continues to exceed available revenues and deficits mount. If the state continues on the path set out by the Governor, he will leave Illinois in worse financial shape than before the tax hike was adopted.

We must find an alternative, because the path the state continues to travel down is unacceptable and irresponsible. We face the very real possibility that unless the General Assembly and Governor act now to bring the state budget under control, the state will face a financial crisis at the end of Governor Quinn's term that threatens the most basic functions of state government.

The following document outlines the problem in detail. It is a call to action. Together, Republicans and Democrats must accept the dismal math before us and take action now to put the state back on track.

*Christine Badger*



### Reality Check: Illinois racing off a cliff

Taxpayers are stunned to learn that the massive lame-duck tax hike, passed in January 2011, does not fix the state's budget problems. When the tax increase was passed in the middle of the night, Republicans warned increasing taxes without controlling spending would only lead to deeper deficits and higher taxes.

Tax hike proponents characterized it as a temporary action needed to pay off old bills and put Illinois on track to permanent financial stability. That can be achieved, but not if Illinois continues down a path set out by Governor Pat Quinn and his legislative allies

*Within five years, Illinois will face a cumulative deficit of more than \$22 billion. Threatening core government services and fostering crushing tax hikes.*

Despite the 67% income tax increase, the state is on a path that will result in an annual deficit of \$8 billion and a cumulative deficit of more than \$22 billion in five years.

Deficits in that range will threaten core government services and foster

unsustainable and crushing tax hikes.

A review of spending and revenue confirms the trend and makes it apparent that it will take from \$4 to \$6 billion in additional spending reductions to the Governor's proposed budget in order to put the state back on track.

### Another Way: Tackle the Deficit, Cut Taxes

There is another option. If Illinois faces fiscal reality and adopts reality-based budgeting, we can reverse the trend. But, it must start immediately.

Approximately \$5 billion in spending reductions and economic expansion will allow lawmakers to restore the income tax to historical levels. This includes a phased-out repeal of the personal income tax increase, elimination of the corporate tax increase to spur economic growth, elimination of the Death Tax increase and eliminating the tax increase on business losses.

*We can reverse the trend. We can phase out the 67% lame-duck tax hike and spur jobs and growth.*

This will put Illinois back on solid financial footing, not only for today's taxpayers, but for future generations as well.

### Difficult but Necessary

There is no pretending that reducing spending will be easy or painless.

But the alternative is much more painful. What will a future with a running deficit of \$22.66 billion look like if spending is not brought under control? Consider that a \$22 billion deficit represents just under two-thirds of the state budget.

- It is about three times more than the Governor's entire general funds request for all the school districts in Illinois;
- It is about 10 times more than the Governor has requested for every university, every community college and all student financial aid in the state;
- It is about twice what the state spends on health care for the poor; and
- It is about 16 times more than the state spends on the entire state prison system.



## **The way back**

*If we bring spending under control now, we buy breathing space for future years and allow the tax to expire, either earlier than anticipated or, at a minimum, when it was promised.*

*In developing an alternative spending plan, GOP Senators focused on 10 key components needed to put Illinois back on solid financial ground and position the state for growth.*

### **Grow Jobs**

Improve the Illinois business environment to foster economic expansion and job growth. Implement policies to help Illinois achieve its full potential as an economic engine. A rising tide lifts all boats, and increased job growth and economic activity will lead to increased state revenues.

### **Reform Systems and Programs**

Illinois cannot afford to keep doing the same things over and over again, expecting to see different results. Restructuring and reforming the Workers' Compensation system, public pensions, the State Employee Group Health Program, the service delivery system for persons with developmental disabilities, conducting a statewide spend analysis and other spending programs will help to ensure that Illinois does not simply continue down the same path.

### **Reduce Spending Immediately**

Avoiding tough decisions today will only lead to more painful and difficult choices in the future. To get the budget under control, we must reduce the Governor's FY12 Spending Proposal by \$5 billion. This takes spending levels to around \$30 billion, or just below FY08 spending levels.

### **Cut Taxes**

We can and should roll back all of the tax increases enacted during the lame duck session.

### **Cap Spending Growth**

Overly generous spending caps already in law are meaningless. We must bring down those spending caps to a realistic level that reflects a new base level of \$30 billion in FY12, and allow 1.5% growth in spending over the next four years.

### **Pay Bills**

We can pay off the backlog of unpaid bills without going further into debt, by using cash freed up when state spending is reduced below revenues available.

### **Stop Borrowing**

Illinois has maxed out its credit cards over the past decade. Per capita debt has risen 120% in less than 10 years, and is at the point where every child born in Illinois begins life with a \$9,000 state debt hanging over its head. The Governor has proposed adding another \$8.75 billion to the debt; ostensibly to pay off "old bills" but his plan also includes using borrowed money to allow him to spend more on day-to-day costs than the state will take in. The Republican plan allows the backlog of unpaid bills to be completely paid off over the next 18 months with cash, instead of adding more debt. The Governor's \$8.75 billion borrowing proposal would cost taxpayers over \$3.5 billion in interest over the next 14 years.

### **Long Term Planning**

For the past decade, Illinois has lurched from temporary fix to temporary fix. Budgets have been patched together with gimmicks. One-time revenues were used to launch permanent programs with no thought given to paying the bills in the future. Notably absent from most state budgeting exercises, including Governor Quinn's FY12 budget proposal, is the long term implications of what's being proposed. This plan includes a five-year outlook.

### **Prevent Future Bill Backlogs**

An obscure loophole in state law (Section 25) has been used to push debt from one fiscal year into the next year, masking the true scope of the state's deficit spending and allowing governors to dig the state deeper and deeper into debt. Former Comptroller Dan Hynes and many others have called for closing this loophole. Once bill backlogs are paid down, we should eliminate this mechanism, assuring that the massive bill backlog Illinois has accumulated will never be allowed to happen again.

### **No New Programs**

No new programs should be included in the state budget. No one in Illinois is clamoring for bigger and more costly government. It's time to declare a moratorium on government expansion.



### What has happened?

Illinois faces a dismal financial outlook because the Governor’s planned budget outspends available revenues by more than a billion dollars next year. In addition, overly generous “spending caps” contained in the tax hike legislation (SB 2505, 96th GA) compound the problem in each of the next four years.

Unfortunately, many in Springfield continue to focus on taking more money away from taxpayers, rather than on how to bring spending into line with available revenues.

### No escaping the math

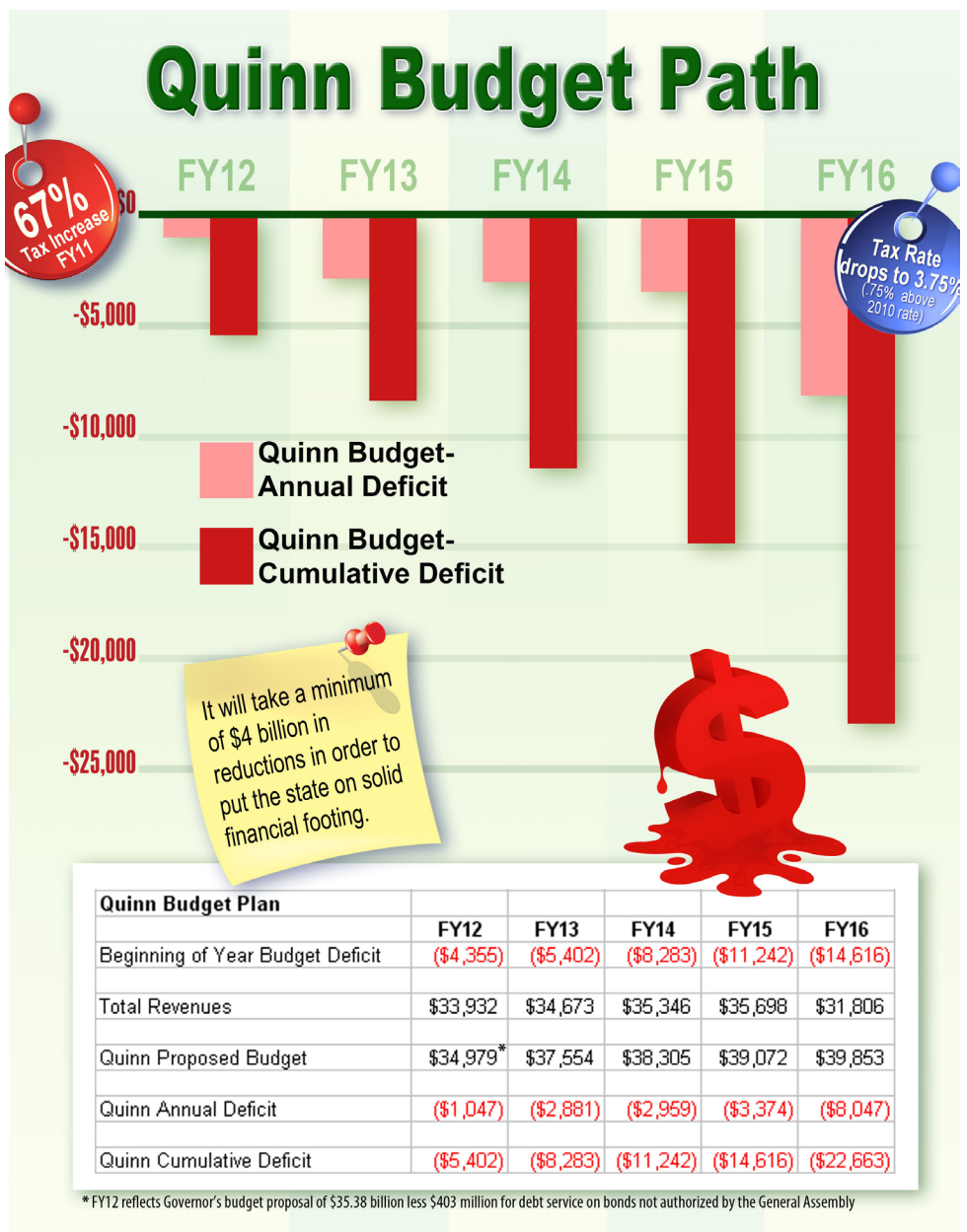
Because of the overspending, the state will not make any progress toward reducing its already existing \$4.3 billion deficit next year. As a result, the cumulative deficit will multiply to more than \$22 billion when the bulk of the “temporary” tax hike is supposed to expire.

Politicians can debate programs and policies forever. But the math is simple and inescapable.

Illinois will begin the next fiscal year with a deficit of \$4.35 billion. The state will take in \$33.93 billion, but plans to spend \$34.98 billion. That overspending, coupled with the existing deficit leaves the state with a \$5.4 billion deficit as fiscal year 2012 ends.

Generous “spending caps” in the tax hike legislation contain the road map for subsequent years and that map shows the state will spend about \$3 billion more than it takes in each of the following three years.

Each year, the state digs itself deeper into a hole until, in the year that the tax increase is set to expire, the state is spending \$8 billion more than it takes in and accumulating \$22.66 billion in total deficits.





Any family struggling to live within a budget understands the simple fact that if you spend more than you take in, you end up deeper in debt and with each passing day it becomes harder and harder to dig out.

### **Magic beans, pixie dust and borrowing**

The Governor and others have suggested that the state can balance its budget by borrowing billions of dollars. This is the governmental equivalent of sprinkling pixie dust on the problem or planting magic beans that will take us to a treasure trove in the sky.

As every family knows, borrowing simply takes money from the future and spends it today. It does not and cannot magically create more money – either for a family or for a state government.

Families also understand that it is a bad idea to borrow more money when you are swimming in debt.

And, over the past decade, Illinois state government has been diving deeper and deeper into that pool. We have the second highest debt of any state, behind only California. And, on a per capita basis, our debt is greater than even California's.

Despite the massive tax hike, the Governor's budget proposed spending nearly \$1.5 billion in borrowed funds, not to "pay off old bills" as promised, but simply to mask deficit spending. If the General Assembly were to approve Governor Quinn's \$8.75 billion in new debt, Illinois would likely become the state with the highest per capita debt in the nation.

Strategic borrowing as part of an overall financial plan can make sense under the right conditions (as when a family trades monthly rent for a monthly mortgage payment). But, borrowing to cover routine, recurring expenses only delays the inevitable and makes it more difficult to balance a budget because the higher spending gets built into the base.

### **Worse than when we started**

It is hard for taxpayers (who will see a week's pay taken out of their pockets every year due to the tax increase) to believe, but the state will be worse off at the end of five years of higher taxes, than it was before the tax was enacted.

At the end of Fiscal Year 2010, the last year when Illinois' personal income tax rate was 3%, Illinois ended the fiscal year with a \$6 billion deficit. By the end of Fiscal Year 2016, the annual deficit will be more than \$8 billion and the cumulative deficit will surpass \$22.66 billion.

It may be hard to believe, but it is easy to explain. Consistently spending more than the state takes in leads to only one result – bigger deficits.

### **Problem can't be ignored**

It's tempting to say – as the Governor appears to be doing – that Illinois should spend more in the coming year and then cut back in future years. But, that just doesn't work.

In fact, the Governor's base spending for the coming fiscal year is actually more money than what the state

*The deficits left behind by the Quinn administration would leave a legacy of crushing debt and taxes without enough to pay for the most basic state services.*

*Illinois' \$6 billion deficit before the 67% tax increase will pale in comparison to the deficit after the tax increase has been in effect for four years.*



will have available in the year that the tax hike is set to expire.

At current rates, state tax revenues just won't grow enough to overtake spending – ever.

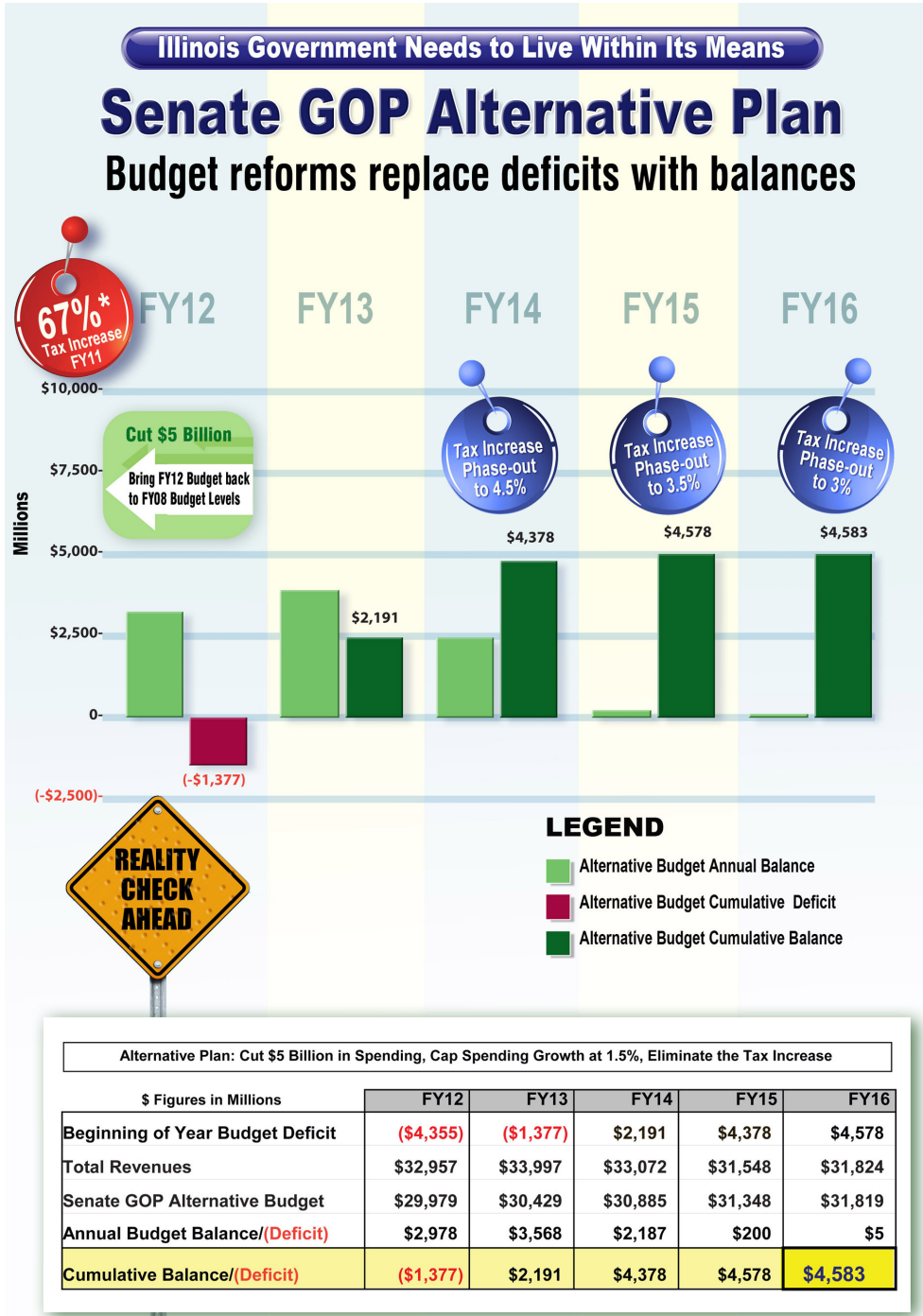
### No disputing the numbers

Senate Republicans have said that we must first define the problem and raise public awareness of how serious it is.

Too many statehouse insiders have focused on getting a “piece” of the 67% tax increase, when in reality, there are no pieces to be had.

It is significant that in the time since Senate Republicans drew attention to the budget cliff no one has seriously sought to refute the numbers. Some continue to try to mask the deficit by suggesting that borrowing will magically solve the problem. Others continue to embrace and promote additional tax increases.

Some say that revenue projections in the report are too conservative. But, the General Assembly has a long history of overestimating revenues in order to make budgets appear to be balanced. The Senate Republican proposal accounts for economic expansion as the effects of business reforms, balancing the budget and paying off old bills ripple through the economy. We have been conservative in





our estimates, but there is no solid evidence to support more optimistic projections.

Finally, there are those that claim they will avoid the cliff by spending less than allowed by the “caps” contained in the 67% tax increase legislation – an

*If we bring spending under control now we can allow the tax increase to expire and prevent higher tax hikes in the future.*

acknowledgement that the supposed “caps” were overly generous. But, the only way to meet that promise is to reduce spending. That of course, leads to the obvious question: where are their cuts? Will they offer up their own plan?

### **The way back**

If we bring spending under control now, we buy breathing space for future years and allow the tax to expire, either earlier than anticipated or, at a minimum, when it was promised.

GOP Senators have identified realistic reductions.

There is no pretending that reducing spending will be easy or painless.

The truth is Illinois has no choice. The only solution available for the state is to bring down base spending immediately and

hold it to reasonable levels. Those who oppose these reductions must declare what path they would take: a never-ending cycle of higher and higher tax hikes or alternative cuts.

We can get our financial house in order or we can:

- Leave our children and grandchildren with crushing debt and taxes;
- Leave retired workers with a bankrupt pension system;
- Deny future generations a decent public education;
- Turn our public universities into havens for only the wealthiest of students; and
- Push our most vulnerable citizens onto the streets.

*Those who oppose the plan must declare what path they would take. They must choose higher taxes or tell the public where they would cut.*





## The Senate Republican Proposal

On the following pages, Senate Republicans have laid out a detailed series of options and targets that must be met in order to bring the state budget into balance.

Most of these are not new ideas. They have been proposed by government watchdogs, financial reformers, the Governor's own Taxpayer Action Board, editorial boards and many others. In compiling this menu of options, Senate Republican Leader Christine Radogno charged her caucus with three objectives:

### **Real Savings**

First, the reductions had to be real and, wherever possible, quantifiable. There would be no pretending that reductions could be made that would not have an impact on state government and the services it provides.

### **Back to the Basics**

Second, essential government services had to be retained. Toward that end, the Senate Republican Caucus looked at the core responsibility of state agencies and tried to identify programs that extend beyond traditional agency missions. The caucus also took a careful look at programs that have been started in recent years, under the reasonable assumption that if Illinois citizens managed for 185 years without a particular state program, the program may not be essential to the operation of state government. Another consideration was fairness. Over the decades political clout has translated into special treatment for some institutions and communities. Illinois can no longer afford to play favorites.

### **Back it up with Votes**

Finally, Senator Radogno outlined a clear standard for the recommendations contained in this report. No proposal would be included unless it could generate at least 15 votes (half of the number needed to pass the Senate) within the Republican Caucus.

Solving this challenge will require cooperation and coordination with the majority. If there is a clear message from the public, it is that they are tired of the political gamesmanship that has dominated Illinois state government for too many years. We were all selected to come to Springfield to address the challenges facing Illinois in a mature, professional and responsible way.

Senate Republicans constitute less than half of the Senate. It is our hope that backing up these proposals with a pledge to provide half the votes necessary to pass them will demonstrate our willingness to work with the majority to resolve this crisis.



## The Senate Republican Proposal

### Agency Targeted Spending Adjustments

#### **Dept. on Aging**

This agency is set to receive a 27% increase under Governor Quinn's FY12 budget proposal. Limit the increase to 6.5%, which is nearly 5% above the U.S. Bureau of Labor Statistics annual inflation rate for 2010.

The Department on Aging is an \$800 million General Funds agency. Limiting the growth to a generous, but not excessive 6.5% would reduce the Governor's requested increase of \$170 million to a more manageable \$40 million.

Savings could be realized by reviewing the Community Care Program and evaluating Determination of Need (DON) score adjustments, re-evaluating levels of service hours for enrollees, evaluating the number of persons served and reviewing and evaluating worker rates.

The average monthly cost per enrollee in the Community Care program has increased by almost 50% in just three years from \$621 in FY08 to \$919 in FY11, according to the Governor's figures. The program itself has grown from a \$270 million program in FY07 to a \$700 million program request for FY12, an increase of 162%.

If the 66,000 persons receiving assistance this year could be cared for at FY08 costs, the Governor's request could be reduced by \$200 million. Other items open to discussion are reducing case management spending, and evaluating other grant programs such as the intergenerational program and the retired senior volunteer program.

Senate Republicans fully understand that caring for a person in their home and avoiding institutionalized care is a benefit for both the person and the State of Illinois and we agree with the concept, but the significant growth in the Community Care program is attributable to much more than just serving more people, and it needs to be better managed.

**Targeted Savings: \$130 million**

#### **Dept. of Healthcare and Family Services (Medicaid)**

Eight years ago, the State's Medicaid program was a \$6.5 billion program with about 1.6 million people enrolled. Today, it's a \$10.4 billion program with almost 2.8 million enrollees.

Targeted savings of 12.5% of the total \$10.4 billion in Medicaid costs. This goal could be achieved through a myriad of possible actions including reviewing the cost of drugs, increasing co-pays, rolling back eligibility levels from the higher end of income levels for various programs including FamilyCare and AABD, establishing an asset test for the All Kids program similar to asset tests applied to other Medicaid programs, reviewing optional services provided by Illinois' Medicaid program that are not mandated by the federal government, considering



## The Senate Republican Proposal

moving eligibility levels in some Medicaid programs to the national average, a review of certain provider rates, and reviewing the purpose of the \$200 million “other related medical” line item in the DHFS budget which has been used to fund pet agency projects such as publicity campaigns and outreach efforts.

If any of these actions are prohibited by the federal government, the State of Illinois should follow the advice of the Taxpayer Action Board and seek a waiver to allow flexibility to implement these cost saving measures, as other states have done.

Proposing to reduce Medicaid spending is not unique to the Senate Republican Caucus. A myriad of organizations including the Governor’s Taxpayer Action Board, the Civic Committee, the Illinois Policy Institute, and the Civic Federation have suggested various Medicaid reforms and reached the conclusion that Medicaid costs must be reduced.

Senate Republicans were proud to work in a bipartisan way with legislators from all caucuses and representatives from the Governor’s Office to enact Public Act 96-1501 which includes many meaningful Medicaid reforms. All parties deserve credit for these reforms. But a review of the fiscal situation in Illinois leads us to the conclusion that more must be done to cut costs in this program.

Enacting all of the above measures could reduce Medicaid costs in Illinois by as much as 50%. Simply bringing Illinois Medicaid eligibility into line with the national average would save an estimated \$1.6 billion, so the targeted savings of 12.5% can be achieved while retaining essential safety net programs and services.

**Targeted Savings: \$1.3 billion**

### **Dept. of Human Services**

Establish a target 7.5% reduction or \$250 million from Governor Quinn’s proposed DHS budget of \$3.3 billion. Savings could be achieved over time by pursuing an aggressive approach to deinstitutionalizing care for the developmentally disabled and moving those persons into community settings.

Illinois is far behind the national trend in moving individuals with developmental disabilities out of institutional care and into community settings. In round numbers, it costs almost \$150,000 to care for a person in a state institution, while it costs around \$50,000 to pay for that person to reside in a house in the community. Community living provides most persons with developmental disabilities with a better quality of life while saving taxpayer dollars.

The Governor’s own Taxpayer Action Board and the Civic Committee have suggested deinstitutionalizing services for the developmentally disabled.

Savings could also be achieved by consolidating stand-alone agencies such as the Deaf and Hard of Hearing



## The Senate Republican Proposal

Commission and the Illinois Violence Prevention Authority into DHS, and reviewing all DHS grant programs for reductions or total eliminations. The Civic Committee has endorsed a review of DHS grant programs in an effort to discontinue non-core grants.

Enacting all of the above measures could reduce spending by as much as \$450 million, making the targeted savings of 7.5% realistic without jeopardizing essential services.

**Targeted Savings: \$250 million**

### **Dept. of Corrections**

Governor Quinn's budget includes an increase of \$163 million, or almost 15% for the Dept. of Corrections. Targeted savings of \$95 million is just 7.5% of the proposed general funds appropriation of \$1.3 billion and still allows growth of 6% from FY11. This is 4.5% above the inflation rate for 2010 according to the U.S. Bureau of Labor Statistics.

In a case of trying to have it both ways, the Governor has requested additional headcount for prison guards and stated that hiring new guards would save the state money by cutting excessive overtime costs. Yet, instead of showing that savings in his budget request, the Governor asked for an increase in spending for the agency.

One option for savings includes reducing spending on inmate compensation. The State of Illinois spends over \$7 million GRF per year paying stipends to inmates which is then used to purchase comforts for the prison such as candy, cigarettes and cable TV (including premium channels). Consideration should also be given to the establishment of a safe and well-designed policy to reduce the number of non-violent offenders in Illinois prisons as suggested by the Taxpayer Action Board (estimated savings \$65 million), reviewing the restructuring of work shifts for prison employees from 8 hour shifts to 12 hour shifts as suggested by the Taxpayer Action Board (possible savings \$31 million) and integrating technology with county jail systems - especially Cook County - in an effort to share data and reduce duplication of medical testing services as suggested by the Taxpayer Action Board (estimated savings of \$2 million).

**Targeted Savings: \$95 million**

### **Dept. of Commerce and Economic Opportunity**

The Governor has requested an increase of \$18 million in the coming fiscal year. Savings of \$20 million can be achieved by eliminating the Governor's increase and reviewing foreign trade offices and all general funds expenses. This agency has often been found to be the source of pet projects and this year a \$2.5 million grant is proposed for "community projects," a tripling of the request for this program from last year. This entire line item should be eliminated.

A large part of the requested increase in this agency is related to a more than doubling of funding for "job training grants." Senate Republicans believe the best way to improve the business climate in Illinois and to create and



## The Senate Republican Proposal

retain jobs is not through taxpayer funded grants, but by reducing the cost of doing business in the State of Illinois by reducing some of the highest workers compensation costs in the nation, streamlining permitting and regulatory processes and reducing taxes on Illinois employers.

In 2009, after the director of the Department of Human Services was implicated in a scandal which exposed the agency's use of highly paid aides as personal chauffeurs, Governor Quinn attempted to use the state's foreign trade office in South Africa as a refuge for the disgraced former director.

**Targeted Savings: \$20 million**

### **CMS State Employee Group Insurance Program**

Goal of 20% reduction in state costs for the \$2.5 billion program - this would result in almost \$500 million savings, including \$300 million applicable to general funds. This target can be achieved through a combination of actions to reduce the costs associated with the program and increase the participants' contributions toward the costs of the program. Actions should include establishing retiree contributions to healthcare costs, possible premium increases for current employees, re-evaluating the need for the Quality Care Health Plan (the indemnity plan), and reviewing the creation of greater premium differentials between the QCHP and HMO plan so that more employees may choose the less costly HMO option instead of the QCHP plan.

The Governor's Taxpayer Action Board noted that state group insurance participants cover between 12% and 13% of the state plan's costs, while nationally employees cover on average 15% of plan costs for individuals and 22% of plan costs for employees with dependents.

The state group insurance program has grown by 33% from a \$1.8 billion program to a \$2.4 billion program in just the last five years. This kind of growth cannot be sustained by state revenues. Cost reduction actions are imperative in this program if the state is to avoid future tax increases.

The Governor's Taxpayer Action Board, the Civic Committee, the Civic Federation and the Illinois Policy Institute have all highlighted the group insurance program as a place for savings initiatives.

**Targeted Savings: \$300 million**

### **Dept. of Public Health**

This Agency receives an allocation of \$156 million in the Governor's FY12 budget proposal. By reviewing all grant programs for possible reductions, adjusting eligibility requirements or renegotiating provider contracts the department could reduce the requested amount by \$25 million.

**Targeted Savings: \$25 million**

### **Dept. of Children and Family Services**

The Governor proposes \$844 million general funds for DCFS in FY12. In addition, the Governor recommended



## The Senate Republican Proposal

\$438 million in appropriations from the Children's Services Fund to provide total DCFS state appropriations for FY12 at \$1.3 billion. Savings of \$140 million would total a little over 10% of agency appropriations. Savings could be achieved by, among other things, reviewing foster care rates, with emphasis on rates for those foster care recipients who are caring for children who are relatives.

**Targeted Savings: \$140 million**

### Illinois State Board of Education

Target reduction of \$725 million, which is 10% of state appropriations, but less than 3% of the \$28 billion in total resources available for education statewide.

Options include freezing the General State Aid contribution at last year's level (saving \$262 million), re-evaluating and possibly recalculating the Poverty Grant portion of the state aid formula and re-evaluating the PTELL adjustment portion of the education funding formula - both suggested by the Taxpayer Action Board.

As an example of a rapidly growing component of education, the supplemental poverty grant portion of the general state aid formula has increased by almost 250% in the last eight years from just under \$400 million in FY03 to \$1.35 billion in FY11. This growth cannot be sustained.

Other possible actions include re-evaluating all programs not related to the funding formula or mandated categoricals, eliminating the special treatment for the Chicago Public Schools special education grants to bring grants into line with other schools across Illinois, eliminating Governor Quinn's proposed increase in the Early Childhood Block Grant (\$40 million), and exploring ways to achieve administrative streamlining of high school and elementary school districts.

Education is, and has been, the number one funding priority for the state legislature over the last two decades. State general funds appropriations for education have increased from \$5 billion in FY03 to the Governor's request of over \$7.2 billion in FY12, an increase of \$2.2 billion, or 44% in the last eight years. And total resources available for education have grown from \$19 billion to \$28 billion over the same time period. However, if the budget is to be brought into balance to avoid another tax increase in five years, the State Board of Education must be a part of the solution.

Many Senate Republicans would also support a legislative review of school mandates with the goal of eliminating some of those mandates to allow additional flexibility for schools to manage their resources more effectively at the local level.

**Targeted Savings: \$725 million**

### Higher Education

Target reduction of \$200 million is less than 10% of total state appropriations, and is less than 5% of total



## The Senate Republican Proposal

appropriations when income funds (tuition revenues) are included. Senate Republicans believe state support could be reduced without impacting tuition rates by employing some savings measures within the universities.

In an effort to have better oversight of tuition adjustments, some Senate Republicans would welcome a renewed discussion of whether university income funds should once again be appropriated by the legislature. This would allow the legislature to have a level of oversight into how much tuition rates at public universities may increase. Right now, the legislature has none.

Admittedly, universities saw a reduced level of state support during the Blagojevich era, losing 13% since fiscal year 2002. However, they have overcompensated for that loss by enacting massive tuition increases. During that same time period, universities have raised their tuition and fees 167% or almost \$1 billion to offset a \$194 million loss in state revenues.

Reductions could be achieved, in part, by reviewing sabbatical policies, professor hours in the classroom and reviewing the extensive use of tuition waivers. Last year, public universities awarded almost \$400 million in tuition waivers to students, while those same universities collected \$1.5 billion in tuition from paying students. A limit on tuition waivers is something Senate Republicans would be willing to explore. When a student attends a public university for free, other students must pay more to account for it. Legislative scholarships, which cost the state \$14 million per year, should be eliminated as a first step.

It should be noted that simply eliminating half of all tuition waivers would account for the entire target of \$200 million.

**Targeted Savings: \$200 million**

### Program/Agency Eliminations

**Dept. of Agriculture** - Eliminate the special Cook County Extension grant created by Blagojevich. Cook County could access extension services through the regular extension network like all other county extension programs.

**East St. Louis Finance Authority** - Eliminate this special state funding for an essentially local agency that lacks any real record of effectiveness.

**Dept. of Transportation** - Eliminate the state subsidy for RTA/CTA debt service on bonds that were used to fund agency operations.

**Appellate Prosecutor Cook County Grant** - Eliminate this special grant that only Cook County receives.

**Civil Service Commission** - Eliminate an ineffective agency whose own director testified in the Senate Appropriations Committee that 70% of their decisions are eventually reversed by the courts.



## The Senate Republican Proposal

**Upward Mobility Program at CMS** - This non-essential program provides state resources to pay for further education and training for state employees so that they may attempt to move into higher paying state jobs. While the intent is worthy, it is an added expense that is not a core function of state government.

**Dept. of Revenue** - Eliminate stipends for local officials' salaries for Treasurers, Assessors, Sheriffs, Coroners and Auditors.

**Arts Council** - For most of this fiscal year, the Illinois Arts Council has essentially suspended its primary duty, that of awarding grants and stipends to Illinois artists and art organizations. Operational expenses at the agency continued to be funded, even as their grant making duties were suspended. With little or no grant funds to award, there is no reason to continue funding the agency. While support of the arts is a worthwhile goal, it is not a core responsibility of state government.

**Special Chicago Library grant in the Secretary of State budget** - This grant was created years ago as a special "add-on" to the budget. Like so many government programs, once created, it took on a life of its own and continues to receive taxpayer dollars. Library districts across the state receive funding by formula through the Secretary of State. This grant is a special grant, outside of the formula, for the Chicago Public Library.

**Illinois Community College Board** - Establish equity between Chicago and other community colleges by eliminating the special non-formula subsidy for City Colleges of Chicago. Community Colleges receive their funding based on formulas administered by the Board, but this grant is a special grant in addition to those formulas for City Colleges only. This was a Rod Blagojevich program to channel more money to specific interests.

**Supreme Court Historic Preservation Commission** - Eliminate the agency. Agency was created in 2007 with \$5 million in seed money from General Revenue Funds with the mission of acquiring, collecting, documenting and preserving historic aspects of buildings, artifacts and documents related to the Illinois Judiciary. The goal was for the agency to raise private dollars to fund its operations. To date, only \$4,500 has been raised. The agency employs four people with an average agency salary of over \$95,000. Three of the four have state-issued cell phones. The duties of this Commission could be carried out by the Historic Preservation Agency, or the Supreme Court.

**Eliminate funding for the Lieutenant Governor's Office** - On four occasions in the last 50 years, the State of Illinois has operated without a Lieutenant Governor for periods from six months to two years, twice with Democrats, and twice with Republicans. Most recently, Illinoisans went without a Lieutenant Governor for two years. It's hard to identify the value lost by Illinois taxpayers in any of those cases. This proposal would simply eliminate the funding for the office immediately. Eliminating the position entirely is a constitutional question.

**Combine Treasurer and Comptroller Offices** - Eliminating these offices and combining them into one office





## The Senate Republican Proposal

would save costs related to administration and investment oversight. Estimates are that savings could reach \$12 million, but these savings would not be materialize for a few years because it will require a constitutional amendment to achieve this merger.

**Illinois Violence Prevention Authority** - Review the new program (created by Governor Quinn last year) called the Neighborhood Recovery Initiative that was established as a reaction to the criminal violence in the City of Chicago. This program lacks public scrutiny, guidelines or standards for the distribution of funding.

**Illinois Violence Prevention Authority** - Review a new program called the Safety Net Works Program that was created by Governor Quinn. The Authority lacks public scrutiny, guidelines or standards and has been less than transparent about its operations.

**Total Targeted Savings for all Program Eliminations: \$90.6 million**

### Automatic Statutory Transfers

#### Local Government Revenue Sharing

Review the over \$6 billion that local governments receive in revenue sharing from the State of Illinois. They receive around 6% of income tax receipts, over half of all gas tax receipts, 20% of sales tax receipts on items other than food and drugs, 100% of sales tax receipts on food and drug purchases, and 100% of revenues from the Personal Property Replacement Tax. A \$300 million reduction represents around 5% of those revenues. This approach has been suggested by many groups including the Governor's Taxpayer Action Board, the Illinois Policy Institute and the Civic Committee.

**Targeted Savings: \$300 million**

#### Reduce other General Funds Transfers

Targeted reduction of \$150 million from transfers - not including debt service payments. This could include reductions to the state subsidies for the Regional Transportation Authority and downstate transit districts, and possible reductions in tourism funding. Reducing state general fund support for the RTA has been proposed by the Civic Committee.

**Targeted Savings: \$150 million**

### Statewide Initiatives

#### Pension Reforms

Meaningful reforms reduce state liability going forward and, therefore, reduce the required payments on



## The Senate Republican Proposal

that unfunded liability. Illinois must adopt significant pension changes, such as those proposed by the Civic Committee.

**Targeted Savings: \$1.35 billion**

### Streamline Pension Investment Boards

Consolidate the three pension investment boards into one board to generate administrative savings and investment administration savings. Recommended by Taxpayer Action Board.

**Targeted Savings: \$27 million**

### State Payroll Savings

Take actions to reduce state payroll expenses. Options include:

- A statewide state government hiring freeze (Governor Quinn's budget adds 950 headcount) which could save \$50 million (although new headcount at the Dept. of Corrections should be considered to reduce overtime costs);
- Eliminating pay for three (of 13) state holidays each year such as election day (suggested by Taxpayer Action Board); and
- Foregoing scheduled pay raises next fiscal year, FY12 (pay freeze was suggested by the Taxpayer Action Board). The labor contract includes minimum 5.25% pay increases in FY12, when coupled with estimated average 2.5% step increases on top of the base increases this amounts to almost 8% increases scheduled for next year. Foregoing those increases for one year could save almost \$230 million GRF.

**Targeted Savings: \$300 million**

### Reduce State-Issued Phones, Blackberries and Pagers

The State of Illinois has approximately 15,500 state-issued, taxpayer funded electronic communications devices. The Illinois Department of Human Services alone spends almost \$1 million on taxpayer-funded cell phones and blackberries. Reducing the number of devices by 50% would save \$2.3 million.

**Targeted Savings: \$2.3 million**

### State Fleet Reform

State government has 2,200 individually assigned state vehicles. Most of those state vehicles are "take home" vehicles. For example, most, if not all state prison wardens have state issued vehicles that they drive to and from work. Reducing the number of state take-home cars by just 50% and selling the unused cars would save the state \$9 million.

**Targeted Savings: \$9 million**



## The Senate Republican Proposal

### **Reform Procurement Processes**

Conducting a Spend Analysis and rebidding or renegotiating contracts could save \$500 million per year (5% of estimated total of \$10 billion in procurements annually) This suggestion applies only \$300 million of those savings to General Funds. Former Comptroller Hynes suggested that \$300 million alone could be saved by reducing the costs of consulting and other professional services contracts. This type of action has been suggested by the Governor's Taxpayer Action Board (they estimated \$500 million savings) and the Civic Committee (they estimated \$400 million savings).

**Targeted Savings: \$300 million**

### **Reduced Bonding Costs**

Under Pat Quinn, Illinois sunk to the worst credit rating in the United States. Credit rating agencies are carefully watching Illinois to determine how the state will deal with its imbalance between spending and revenues. Bringing spending under control is an essential ingredient to improving the state's credit rating.

Improved credit ratings from a clear and responsible financial plan will save debt service costs on state bonding.

**Targeted Savings: \$25 million**

### **Workers Comp Savings**

The State of Illinois, as an employer can expect savings as a result of a meaningful workers compensation reform package (assume 20% of annual \$120 million cost).

**Targeted Savings: \$24 million**

### **Prompt Payment Penalty Savings**

It is estimated that Illinois paid over \$60 million in prompt payment interest in the last year because of late payments to providers. Adopting all or even a portion of these suggestions for reducing spending frees up cash which can be used to pay down the backlog of bills without accumulating additional long term debt.

**Targeted Savings: \$40 million**

### **Other Actions**

**Legislative, Judicial and Constitutional Officer Agencies** - 10% across the board reduction - across the board cuts have been suggested by the Governor's Taxpayer Action Board.

**Targeted Savings: \$85 million**



## The Senate Republican Proposal

**Legislator Salary Pay Cut - 24 Furlough Days**  
**Targeted Savings: \$1.2 million**

**Commission and Board Member Salaries** - Reduce costs of salaries for members of paid State Boards and Commissions by 50%.  
**Targeted Savings: \$4 million**

**Eliminate Half of Higher Paid Blagojevich Appointees** - Former Comptroller Hynes suggested that eliminating just half of the higher paid (over \$75,000/year) Blagojevich political appointees would save \$100 million. This was part of his budget plan. At the time, Hynes was the Comptroller with full access to all state government financial information, so we are compelled to accept his estimate. This projection is just one year old, so the number is still assumed to be relevant.  
**Targeted Savings: \$100 million**

**Medicaid Recapture Audit** - Implementing the Medicaid Recapture Audit contained in Public Act 96-942 has huge potential. Estimates at both the federal and state level have suggested that as much as 10% of Medicaid payments are fraudulent or inappropriate. Completing this Medicaid Recapture Audit could root out many of those problems. A 10% reduction in Medicaid spending at DHFS alone is over \$1 billion. The savings figure utilized here of \$250 million is less than 2.5% of total Medicaid spending at DHFS.  
**Targeted Savings: \$250 million**

**Business Management Audit**  
**Targeted Savings: TBD**

**Direct Deposit of Prompt Payment Interest Checks - SB 1728** - Reduce the occurrence of State of Illinois issuing checks for very small amounts.  
**Targeted Savings: TBD**

**Across the Board Cuts** - Reducing all appropriated agencies - net of other reductions mentioned previously - has a value of \$230 million for each 1% reduction. Several groups including the Taxpayer Action Board and the Civic Federation have embraced the concept of across the board cuts.  
**Targeted Savings: \$460 million**



## The Senate Republican Proposal

### Revenue Adjustments

#### Job Growth

Meaningful Workers Compensation Reforms and other pro-employer policy changes (including tax cuts) results in job growth. Reducing the cost of doing business in Illinois frees up funds that employers can then use to expand their businesses, hire new employees and invest in new equipment. It creates a cycle of growth that generates revenue and economic expansion for the state.

Professor Geoffrey Hewings at the University of Illinois Institute of Government and Public Affairs estimates that every job added provides an additional \$3,000 in tax revenue to the State of Illinois. Senate Republicans assume that by improving the jobs climate, we add 50,000 jobs in FY12, 65,000 jobs in FY13, 75,000 jobs in FY14, 100,000 jobs in FY15 and 120,000 jobs in FY16.

**Budget Impact: \$150 million in Fiscal Year 12, growing to \$1.23 billion by Fiscal Year 16.**

#### Economic Improvement Factor

A balanced budget, prompt payment of state bills and improved business climate will fuel improved economic activity and result in enhanced state revenues through economic growth.

In addition, because Illinois will become a more desirable and attractive environment for business investment the state will benefit from any national economic recovery and growth. This is in sharp contrast to the Blagojevich era, in which increased business taxes and anti-business policies insulated Illinois from much of the economic expansion that occurred in the first decade of the 21st century.

The enhanced economic growth factor on state source revenues is estimated at 1% in FY13, 2% in FY14 3% in FY15, 4% in FY16.

**Budget Impact: \$203 million in FY13, growing to \$2.23 billion in FY 16.**

#### Redirect Revenues from Real Estate Transfer Tax

Currently state revenues from the Real Estate Transfer Tax are distributed 50% to the Affordable Housing Trust Fund, 35% to the Open Space Land Acquisition and Development Program (OSLAD) and 15% to the Natural Areas Aquisition Fund.

Changing those percentages to 25%, 17.5% and 7.5%, respectively, and redirecting the remainder to general revenues would generate \$20 million.

**Budget Impact: \$20 million**



## The Senate Republican Proposal

### Phase Out Tax Hike

Tackling the state's deficit spending will allow lawmakers to restore the income tax to historical levels. This includes a phased out repeal of the Personal Income Tax Increase, elimination of the corporate tax increase to spur economic growth, elimination of the Death Tax increase, and eliminating of the tax increase on business losses.

The personal tax increase would be reduced according to the following schedule: reduced to 4.5% in FY14, 3.5% in FY15 and 3.0% in FY16. Quinn plan leaves personal income tax at 3.75% in FY16 going forward.

The corporate tax increase (which is actually paid by consumers and employees in the form of higher prices and lost wages) would be eliminated in Fiscal Year 14. The Death Tax and the business loss tax increases would be repealed immediately.

**Budget Impact: \$495 million revenue loss in FY12; \$2.823 billion in FY16.**

### Federal Medicaid Match

While Medicaid spending reductions save taxpayer dollars, they do result in less revenue from the federal government. Given that Illinois is the home of the President, that his former Chief of Staff is now Mayor of Chicago and that the state's senior U.S. Senator is the Number Two Democrat in the Senate, Senate Republicans believe that it is not unreasonable that the loss could be mitigated by changes in federal match formulas for Illinois.

However, for the purposes of this proposal, we have assumed the full impact of the lost federal dollars.

**Budget Impact: \$650 million revenue loss.**

**Total Value of All Adjustments: \$6.710 Billion**

**Required to Meet Financial Plan: \$5 Billion**