The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

STATE OF ILLINOIS FY2014 RECOMMENDED OPERATING AND CAPITAL BUDGETS:

Analysis and Recommendations

May 13, 2013

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EXECUTIVE SUMMARY

The Civic Federation **supports** Governor Pat Quinn's recommended FY2014 budget for the State of Illinois because it balances revenues and expenditures without borrowing and makes progress toward reducing the State's backlog of bills.

While supporting the Governor's budget, the Civic Federation remains **gravely concerned** about the State's financial condition. Four years after the official end of the national recession, Illinois is still mired in financial crisis. Despite a temporary income tax increase and significant reductions in agency spending, the State is burdened with unsustainable pension costs and a mountain of bills accumulated during the economic downturn.

The Civic Federation agrees with Governor Quinn that comprehensive pension reform must be the General Assembly's top priority in addressing the State's financial problems. The Federation is **encouraged** that Governor Quinn has publicly supported the pension changes recently passed by the Illinois House of Representatives in Senate Bill 1 as amended in the House. Although this proposal will not solve Illinois' financial problems, it will produce pension savings of the magnitude needed to stabilize the State's finances.

The Governor's recommended $62.4 billion operating budget for FY2014, including a General Funds spending plan of $35.6 billion, makes the State's full statutorily required pension contributions from General Funds and curbs the budgetary gimmick of deferring annual costs to future fiscal years.

Although the Governor's recommended FY2014 budget pays down more than $800 million in unpaid bills, the Civic Federation is **concerned** that the State will again end the year with an enormous backlog of $6.8 billion. This backlog will be even more burdensome after January 1, 2015, when the partial rollback of the temporary income tax increase is scheduled to begin. The Civic Federation is also **concerned** that the proposed budget might overstate savings on retiree health insurance negotiated with its labor unions, leading to a larger than projected backlog of bills.

The Civic Federation offers the following key findings on the Governor's proposed FY2014 budget:

- Proposed General Funds revenues and expenditures are approximately balanced at $35.6 billion;
- Unpaid bills accumulated from prior years decline to $6.8 billion at the end of FY2014 from a total of $7.6 billion at the end of FY2013;
- General Funds pension contributions for FY2014 are $6.0 billion, an increase of $929 million from $5.1 billion in FY2013;
- General Funds pension-related costs, including State contributions and debt payments, total $7.7 billion in FY2014, or 24.5% of total State-source General Funds revenues. By FY2033 the State's General Funds pension costs are projected to consume 35.5% of State-source revenues;
- General operating revenues are expected to grow by $706 million, or 2.0%, to $35.6 billion in FY2014 from $34.9 billion in FY2013;
- Agency appropriations (excluding pension and group health insurance payments) increase by more than $400 million, to $23.8 billion in FY2014 from $23.4 billion in FY2013. Increased spending authority for healthcare and human services offsets reduced funding for education;

- The General Funds appropriation for State group health insurance increases by 22.4% to $1.3 billion in FY2014 from $1.1 billion in FY2013, when the program was underfunded. Savings from a new union contract were expected in FY2013 but will not be achieved until FY2014;
- Unpaid group health insurance bills are expected to total $1.9 billion at the end of FY2014, the same level as FY2013, due to projected savings from the new union contract; and
- Based on current outstanding debt, the General Funds debt service cost peaks in FY2014, totaling $2.1 billion and will not decline significantly until FY2020, after pension bonds sold in FY2011 are repaid.

The Civic Federation **supports** the following aspects of the Governor's FY2014 budget:

- The Governor's call for comprehensive pension reform as part of the FY2014 budget and his support of Senate Bill 1 as amended in the House;
- The transformation of the State's Medicaid program through moving to managed care and shifting resources from institutional care toward community care;
- The proposal to pay down the State's accumulated backlog of unpaid bills and Other General Funds liabilities by more than $800 million; and
- The proposal to reduce the State's transfers for local governments and mass transit and to annually review legislatively required transfers as part of the annual appropriation process.

The Federation has **concerns** about the following components of the Governor's spending plan and the budget process:

- The backlog of bills is expected to remain huge at $6.8 billion at the end of FY2014, including $1.9 billion in State group health bills;
- The proposed budget assumes $354 million in savings on group health insurance costs, but the State's ability to achieve all of these savings remains questionable;
- The Governor's revenue estimate is $549 million higher than the number expected to be used by the General Assembly to allocate available resources in FY2014—a discrepancy that will impede the budget process; and
- The State has not established a transparent and needs-based capital improvement plan for all capital spending. Without this kind of plan in place, the Civic Federation opposes the reauthorization of the debt-funded portion of the capital budget.

The Civic Federation offers the following **recommendations** intended to improve the State's financial condition, institute sound management practices and reduce costs:

- The General Assembly must enact comprehensive pension reform that will significantly reduce the State's pension obligations through reductions in automatic annual benefit increases, phased-in higher retirement ages, caps on the salary on which a pension is based and increased employee contributions. These pension changes are included in Senate Bill 1 as amended by the House, which has been publicly supported by Governor Quinn;
- The State should implement a phased-in shifting of normal pension cost (current service cost) to school districts, universities and community colleges;
- Any pension proposal considered by the State should be thoroughly reviewed by actuaries to determine its financial impact prior to legislative action;

- In addition to reforming the State pension funds, the General Assembly should make similar changes to the retirement systems that cover employees of the City of Chicago, its coordinate units of government and Cook County;
- The State should further increase retiree health insurance premiums and should establish premiums based on actual health insurance costs rather than a percentage of retirees' pensions;
- Any law or rule that allows retirees who live outside Illinois to pay lower premiums than retirees who live in Illinois for the same insurance coverage should be abolished by the General Assembly;
- The State should expand eligibility for Medicaid under the Affordable Care Act due to the resulting significant increase in federal resources compared to projected State expenditures. However, it must plan for additional costs relating to both newly eligible and previously eligible recipients including setting aside any savings from the expansion to pay additional State costs;
- Before reauthorizing or expanding the State's capital budget, the State should establish a comprehensive capital improvement plan (CIP) that is updated and published annually;
- The State should establish a process under which the executive and legislative branches develop a consensus revenue forecast prior to the publication of the Governor's budget;
- The State should develop a formal economic development policy to guide the awarding of incentives;
- The budget book should be improved to provide readers with more information on Medicaid, State group health insurance, personnel and General Funds liabilities not included in the budget; and
- Special State Funds should be reviewed annually and consolidated and/or eliminated except in very high priority situations. Special State Funds consist of all State funds except General Funds, bond-financed funds, debt service funds, federal trust funds and State trust funds.

CIVIC FEDERATION POSITION

The Civic Federation **supports** Governor Pat Quinn's recommended FY2014 budget for the State of Illinois because it balances revenues and expenditures without borrowing and makes progress toward reducing the State's backlog of bills.

While supporting the Governor's budget, the Civic Federation remains **gravely concerned** about the State's financial condition. Four years after the official end of the national recession, Illinois is still mired in financial crisis. Despite a temporary income tax increase and significant reductions in agency spending, the State is burdened with unsustainable pension costs and a mountain of bills accumulated during the economic downturn.

The Civic Federation **agrees** with Governor Quinn that comprehensive pension reform must be the General Assembly's top priority in addressing the State's financial problems. The Federation is **encouraged** that Governor Quinn has publicly supported the pension changes recently passed by the Illinois House of Representatives in Senate Bill 1 as amended in the House.[1] Although this proposal will not solve Illinois' financial problems, it will produce pension savings of the magnitude needed to stabilize the State's finances.

The Governor's recommended $62.4 billion operating budget for FY2014, including a General Funds spending plan of $35.6 billion, makes the State's full statutorily required pension contributions from General Funds and curbs the budgetary gimmick of deferring annual costs to future fiscal years.

The Civic Federation is **concerned**, however, about projected savings on retiree health insurance costs. A change in State law in June 2012 eliminated premium-free retiree health insurance and paved the way for State savings.[2] Although all retirees are expected to pay health insurance premiums in FY2014, a large portion of the savings is projected to come from moving retirees who are eligible for Medicare into a privately-run Medicare plan. Evidence to support those projections has not been made available.

The Civic Federation is further **concerned** that inability to achieve the projected savings in group health insurance could result in growth in the backlog of unpaid group health insurance bills. If the group health insurance program is fully funded in FY2014, the backlog is expected to stand at $1.9 billion at the end of the year—the same level as at year-end FY2013.

Although the Governor's recommended FY2014 budget pays down more than $800 million in unpaid bills, the Civic Federation is **concerned** that the State will again end the year with an enormous backlog of $6.8 billion. This backlog will be even more burdensome after January 1, 2015, when the partial rollback of the temporary income tax increase is scheduled to begin.

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[1] Governor Pat Quinn, "Statement from Governor Pat Quinn on Illinois House's Passage of Historic and Comprehensive Pension Reform," *news release*, May 2, 2013.
[2] Public Act 97-0695.

Issues the Civic Federation Supports

The Civic Federation supports the following aspects of the Governor's FY2014 State of Illinois budget.

Governor's Prioritization of Pension Reform

The State of Illinois has underfunded its pension funds for decades, promising employees future benefits that it cannot afford to pay. The State's obligations under its current pension funding law, combined with debt payments on past borrowing for pensions, will consume nearly 25% of State-source General Funds revenues in FY2014 and grow to approximately 35% by FY2033. Yet if the State scales back its contributions and devotes more resources to current services, the pension funds face insolvency.

Public pensions should offer retirement security to employees and be affordable for taxpayers. The Governor, for the second year in a row, has publicly stated that without comprehensive pension reform the State will not be able to meet its obligations to retirees and continue to properly fund essential government services.

The Civic Federation supports the Governor's call for comprehensive pension reform as part of the FY2014 budget.

The Governor has publicly supported Senate Bill 1 as amended in the House, which would stabilize the State's retirement systems over the long term and includes shared sacrifice by current employees, retirees and taxpayers.[3] It appears to be a strong plan based on actuarial reality.

The proposal includes a 100% funding goal and follows actuarially-based best practices for pension funding. It includes a common sense limit on an unaffordable benefit enhancement—the compounded automatic annual increase of 3%—as well as a phased-in increase in the retirement age to 67, a cap on the salary on which a pension is based and a two percentage point increase in workers' contributions.

The Civic Federation supports reforms similar to those included in SB1 as amended in the House. Without comprehensive pension reform, these costs will continue to outpace revenue growth and lead to further reductions in agency operating funds.

Governor's Transformation of the Medicaid Program

The Civic Federation supports the Governor's efforts to transform the Medicaid program. The Illinois Department of Healthcare and Family Services (HFS) is moving to enroll two-thirds of recipients in managed care by January 2015.[4] Managed care is designed to improve the quality of care and lower costs by rewarding healthcare providers for keeping people healthy, rather than

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[3] Governor Pat Quinn, "Statement from Governor Pat Quinn on Illinois House's Passage of Historic and Comprehensive Pension Reform," *news release*, May 2, 2013.
[4] Illinois Department of Healthcare and Family Services, *Care Coordination Roll-Out Plan, January 2013-January 2015*, November 29, 2012.

tying payment to the volume of services provided. The agency's target for managed care enrollment exceeds the 50% requirement in a Medicaid reform law passed in 2011.[5]

The State is also working on another goal of the 2011 legislation: reducing reliance on institutional care for the elderly and disabled. The effort to move elderly and disabled residents from institutions to community settings and keep them out of nursing homes—known as rebalancing—complies with the Supreme Court's *Olmstead* opinion.[6] The State closed its Jacksonville Developmental Center in November 2012 and is in the process of closing the Murray Developmental Center. According to State officials, it costs an average of $200,000 a year for a resident to live at Jacksonville, compared with an average of $84,000 in a smaller community setting. The State is also implementing consent decrees relating to three federal lawsuits challenging its provision of services to the disabled.

The State is facing a decision on whether to expand Medicaid eligibility under the Affordable Care Act (ACA) in 2014. For newly eligible recipients, the State would not bear additional costs until calendar year 2017 because the federal government reimburses 100% of costs from 2014 through 2016 and at least 90% thereafter. HFS estimates that the State will receive $12.2 billion in additional federal revenues and spend $573.3 million in State funds on the newly eligible through 2020.[7] The FY2014 budget includes $56 million for previously eligible individuals who had not enrolled in Medicaid but are expected to sign up after January 2014 due to the ACA. These costs will be reimbursed by the federal government at the regular rate of 50%, meaning that the State's net cost is $28 million in FY2014.

The Civic Federation supports the Medicaid expansion due to the resulting significant increase in federal resources compared to projected State expenditures. Critics of Medicaid expansion are concerned that the federal government might reduce scheduled Medicaid reimbursement rates due to its own budgetary problems. To ease those concerns, proposed legislation in Illinois to expand Medicaid ends coverage for the newly eligible population if the federal reimbursement rate drops below 90%.[8]

Reducing General Funds Transfers Out

The State of Illinois' annual General Funds expenditures include payments to Other State Funds through statutory transfers that are not part of the appropriation process. These transfers are used to fund many State expenses, including debt service owed on outstanding bonds. They are also used for a wide range of legislatively required purposes—from funding mass transit to supporting the Lincoln Presidential Library in Springfield to promoting thoroughbred racing.

The Civic Federation supports the Governor's proposal in the FY2014 budget to reduce transfers out of General Funds in light of the State's dire financial condition.

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[5] Public Act 96-1501.
[6] U.S. Department of Justice, *Olmstead: Community Integration for Everyone* http://www.ada.gov/olmstead/index.htm (last visited on May 5, 2013).
[7] Illinois Department of Healthcare and Family Services, *Medicaid Financing for the Uninsured: How the Revenues and Costs Are Computed*, http://www2.illinois.gov/hfs/SiteCollectionDocuments/ACAHowRevenuesandCostsareComputed.pdf (last visited on May 9, 2013).
[8] 98th Illinois General Assembly, Senate Bill 26, passed by Senate on February 28, 2013.

The Governor's recommended budget for FY2014 caps income tax payments to local governments at the FY2012 level of $1.095 billion. This is a decrease of $27 million from the amount estimated to be paid in FY2013, and $68 million from the projected payment for FY2014, which was based on the statutory percentages now in effect and the expected growth in total income tax revenues.The budget also reduces funding for Public Transportation and Downstate Public Transportation Funds by capping transfers to these funds at the FY2012 level.

In its first annual report, the Governor's Budgeting for Results Commission recommended that all statutory transfers be evaluated for history, intent and current need in the areas funded.[9] The goal is to ensure that State resources deliver the greatest possible value to taxpayers. The report suggested that funding provided for ongoing State operations through statutory transfers out of General Funds should be largely eliminated, excluding transfers for debt service, local government revenue sharing, payments to revolving funds and cash flow transfers. Instead, ongoing State operations historically funded by statutory transfers should be reviewed annually as part of the State's General Funds appropriations process.

At a time of significant fiscal strain, the State should scrutinize all annual operating spending as part of the annual appropriation process and ensure that all resources are allocated to the most critical priorities.

Civic Federation Concerns

The Civic Federation has the following concerns about the Governor's recommended FY2014 budget and related reform proposals.

Backlog of Unpaid Bills from Previous Years

The State expects to have a backlog of bills from previous years totaling $6.8 billion at the end of FY2014. This includes $4.5 billion in unpaid General Funds bills, $1.9 billion in State group health bills and other underfunded agency costs of $339 million.

Because of the large bill backlog, the State has extended the lapse period to six months from two months for the past three years. The lapse period is the period after the end of the fiscal year during which next year's revenues may be used to pay this year's bills. Extending the lapse period hurts vendors, social service agencies and local governments, which must wait to be paid by the State.

If the State wishes to reduce its backlog of unpaid bills further, it has two options: additional budget cuts or revenue increases. Borrowing to pay down these bills is not a viable option due to 1) the lack of available resources in the budget to pay for debt service and 2) the fact that State revenues will fall sharply beginning in January 2015 due to the partial sunset of the State's income tax increases. Significant additional budget cuts would be difficult, given the spending reductions already under consideration. Any additional revenue would likely be absorbed by the increased pension payments over time or used to stave off additional agency budget cuts.

Although not included in the Governor's FY2014 General Funds revenue projections, the Governor proposed three additional tax treatments in his budget address to increase revenues in FY2014. These changes include taxing foreign dividends, repealing exceptions to the non-

[9] State of Illinois, *Budgeting for Results Commission Report*, November 2, 2011, p. 11.

combination rule and decoupling from the federal domestic production activities deduction. The $445 million in additional revenue generated by these changes would then be set aside to pay down the State's backlog of unpaid bills.

The Civic Federation does not support this proposal to increase State revenues prior to the approval of comprehensive pension reform because it will not effectively address the magnitude of the increase in unpaid bills, which will grow to more than $22 billion by FY2018 if action is not taken.[10]

Without comprehensive pension reform, there is little chance for the State to deal with its accumulated backlog of bills.

Retiree Health Insurance Savings

The Governor's FY2014 budget assumes $354 million in savings on group health insurance costs, but the Civic Federation is concerned about the State's ability to achieve these savings.

A recent change in State law eliminated premium-free retiree health insurance and paved the way for State savings.[11] The State negotiated retiree health benefits with its largest union, the American Federation of State, County and Municipal Employees (AFSCME), during the collective bargaining process for a new contract to replace an agreement that expired on June 30, 2012. A new three-year contract, covering FY2013 through FY2015, was ratified by union members in March 2013 but has not yet been signed.[12]

Based on the negotiated agreement, the State issued information in April 2013 showing it expected $500 million in savings relating to retirees in FY2014 and FY2015.[13] Nearly half of that savings—$232 million—is projected to come from moving retirees who are eligible for Medicare into a privately-run Medicare plan. Evidence to support those projections has not been made available.

Conflicting Revenue Estimates

On March 5, 2013, the day prior to the release of the Governor's FY2014 recommended budget, the Illinois House of Representatives approved a revenue projection that was significantly below the Governor's revenue projections. The resolution states that General Funds revenues in FY2014 are expected to total $35.1 billion or $549 million less than the Governor's projection of $35.6 billion.[14]

The General Funds revenue projection has recently played a key role in the legislature's budget process. For the past three years, the General Assembly has begun its work on the budget by adopting a revenue projection that establishes a spending limit for the next fiscal year. However, FY2014 was the first year that a legislative revenue estimate was approved prior to the release of the Governor's budget. The House adopted House Resolution 83 on March 5, 2013 by a vote of

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[10] Civic Federation, Institute for Illinois' Fiscal Sustainability, *State of Illinois Budget Roadmap FY2014*, p. 44.
[11] Public Act 97-0695.
[12] Doug Finke, "AFSCME to take another vote on contract," *State Journal-Register*, April 30, 2013.
[13] Illinois Department of Central Management Services, *AFSCME 2012-2015 Contract Summary*, Submission to Commission on Government Forecasting and Accountability, April 16, 2013.
[14] 98th Illinois General Assembly, House Resolution 83, passed by the House on March 5, 2013.

100 to 15. The Senate has not adopted a revenue estimate for FY2014 but is expected to use the same estimate as the House.[15]

The General Funds revenue projection approved by the House matched the revenue analysis presented to the General Assembly in January 2013 by the staff of the legislature's Commission on Government Forecasting and Accountability (COGFA). The difference in revenue projections is mainly related to policy issues involving revenue transfers and income tax refunds, rather than different economic forecasts.

The Civic Federation is concerned that the conflicting revenue estimates impede the State's budget process, which should be focused on the allocation of State resources.

Reauthorizing and Expanding the Capital Budget

The Governor's FY2014 capital budget recommends total appropriations of $21.4 billion. This includes the reauthorization of $18.1 billion in spending approved in previous years and $3.3 billion in new project funding.

The Civic Federation opposed the Governor's proposed $31 billion *Illinois Jobs Now!* capital spending program prior to its enactment in FY2010 because it was not based on a comprehensive capital improvement plan (CIP) and was unaffordable over time. However, the General Assembly passed a capital budget in FY2010 based on the Governor's proposal. In FY2012 the State reauthorized the capital budget totaling $24.2 billion in unspent appropriations but did not approve an additional $2.6 billion in new spending proposed by the Governor.

In FY2013 the Governor proposed $3.0 billion in new bond funded capital programs for additional school projects, waste water and State facilities. These new bond financed projects were not approved by the General Assembly.

The Civic Federation recognizes the need for infrastructure investment in Illinois to maintain State-owned assets for the safety of residents and to ensure a vital state economy. However, the Federation cannot support capital spending that is not directly linked to a comprehensive CIP and supported by reliable revenue resources. The Civic Federation opposes the reauthorization of the debt-funded portion of the capital budget until the State establishes a transparent and needs-based CIP for all capital spending.

The Governor's recommendation does not indicate a prioritization of projects or articulate when projects approved will receive funding. The largest portion of the originally approved *Illinois Jobs Now!* capital spending, totaling $20.6 billion, is designated by purpose and is not tied to specific projects, goals, cost estimates or completion timelines.

Additionally, the revenues passed in FY2010 to support the new capital borrowing appear insufficient to support long-term debt service needs. Revenue for the capital bill was generated by increasing vehicle and license fees, expanding the sales tax to certain types of candy, sweetened beverages and some personal hygiene products, leasing the marketing operations for the state lottery, increasing taxes on alcoholic beverages and taxing legalized video poker.

[15] Illinois State Senator Heather Steans, Chairman of the Senate Appropriations I Committee, Constituent email communication, March 29, 2013.

Without the proper planning and transparency provided by a CIP, the residents of Illinois cannot be assured that the *Illinois Jobs Now!* program will properly address the capital needs of the State. At the same time, the new proposed capital debt levels combined with the recent sizable increases in pension-related debt will severely limit any further capital borrowing for decades to come. Citizens of Illinois deserve a concrete multi-year plan before being asked to continue to support an ongoing capital plan that is based on an extremely high level of indebtedness and higher fees and taxes.

Civic Federation Recommendations

The Civic Federation also offers the following recommendations for the FY2014 budget.

Comprehensive Pension Reform

The Civic Federation continues to recommend that the General Assembly enact comprehensive pension reform that will significantly reduce the State's pension obligations through reductions in automatic annual benefit increases, phased-in higher retirement ages, caps on the salary on which a pension is based and increased employee contributions. These pension changes are included in Senate Bill 1 as amended by the House, which has been supported by Governor Quinn.[16]

Because legal challenges are inevitable, these actions must be taken immediately. Any pension proposal considered by the State should be thoroughly reviewed by actuaries to determine its financial impact both in the short run and over the long term.

The Civic Federation also recommends a phased-in shifting of the normal cost (current service cost) for teachers and university employees to their employers: school districts, community colleges and universities. The responsibility for contributing to a worker's pension should rest with the employer who determines the worker's salary. The Civic Federation additionally recommends that the General Assembly grant local school districts, universities and community colleges the authority to determine benefit levels for their employees. Employers should have responsibility for both pension funding and benefit decisions.

In addition to reforming the State pension funds, the Civic Federation calls on the General Assembly to make similar changes to the retirement systems that cover employees of the City of Chicago, its coordinate units of government and Cook County. These funds collectively face a severe funding crisis with rapidly dropping funding levels. In FY2011, the most recent year for which data are available for all ten local government pension funds studied by the Civic Federation, the aggregate funding level was 50.8%, down from 80.3% in FY2002. The Chicago public safety funds are in particularly poor financial shape with the Fire Fund's actuarial funded ratio at 28.3% and the Police Fund at 35.6% as of FY2011.[17]

In addition to rapidly dropping funding levels, the City of Chicago and Chicago Public Schools (CPS) face significant increases in their taxpayer-funded contributions to the pension funds. The contribution CPS makes to the Chicago Teachers' Pension Fund will increase by $400 million in the coming FY2014 fiscal year with the end of a State-granted three-year partial pension funding

[16] Governor Pat Quinn, "Statement from Governor Pat Quinn on Illinois House's Passage of Historic and Comprehensive Pension Reform," *news release*, May 2, 2013.
[17] Civic Federation, *Status of Local Pension Funding Fiscal Year 2011: An Evaluation of Ten Local Government Employee Pension Funds in Cook County*. Forthcoming.

holiday.[18] This increase makes up a large portion of the over $1 billion budget shortfall projected by CPS for FY2014. The City of Chicago's contributions to its four pension funds will increase by $730 million in FY2015 due to a statutory change to its funding of the Police and Fire Funds enacted in 2010 that requires 90% funding by the end of 2040.[19] Although no statutory funding changes have been made for Cook County and the Forest Preserve Pension Funds, the newest data available show that absent reforms they are projected to become insolvent as soon as 2034 and 2031, respectively.[20]

Without changes to pension benefits for local governments, the taxpayers of Chicago face catastrophic tax increases or service cuts and the employees of all the Chicago and Cook County funds face an uncertain retirement benefit. Both Chicago Mayor Rahm Emanuel and Cook County Board President Toni Preckwinkle have indicated that they realize pension reform is necessary to the future fiscal viability of their governments. However, they cannot implement pension benefit changes on their own. Those changes must be made by the General Assembly and signed in to law by the Governor. The Federation calls on the General Assembly to work with Chicago and Cook County to pass critical benefit and funding reforms as soon as possible.

State Retiree Group Health Insurance

The Civic Federation recommends that the State increase the health insurance premiums paid by retirees and base retiree premiums on health insurance costs rather than the new formula based on pensions. Although retirees will pay a larger share of their health insurance costs in FY2014 and FY2015, the benefit remains too costly in light of the State's financial condition.

The Federation also supports abolishing any law or rule that allows retirees who live outside Illinois to pay lower premiums than retirees who live in Illinois for the same insurance coverage.

Until June 2012, Illinois law stated that employees covered by the State Employees' Group Insurance Program who retired before January 1, 1998 and those who retired after that date with at least 20 years of service were not required to pay health insurance premiums.[21] Exceptions included General Assembly members and constitutional officers, who could retire with as few as four years of service and not pay any premiums, and judges, who could retire with as few as six years of service and not pay premiums.[22]

Approximately 90% of the more than 80,000 retirees covered by the State's group insurance program did not pay any health insurance premiums as of January 2011.[23] In June 2012, Illinois enacted legislation that eliminated premium-free health coverage for retirees.[24] The legislation

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[18] Public School Teachers' Pension and Retirement Fund of Chicago, *Statutorily Required Funding Valuation as of June 30, 2012*, The Segal Company, February 5, 2013.
[19] City of Chicago, *Annual Financial Analysis 2012*, July 31, 2012, p. 84.
[20] Paul Merrion, "Cook County pension woes worsen," *Crain's Chicago Business,* http://www.chicagobusiness.com/article/20130508/NEWS02/130509769/cook-county-pension-woes-worsen.
[21] 5 ILCS 375/10. The State has contributed 5% of the premium cost for each full year of service, up to a maximum of 100% for retirees with 20 or more years of service.
[22] General Assembly members elected before January 1, 2011 can retire at age 62 with four years of service; those elected on or after that date must be 67 with eight years of service. Judges elected or appointed before January 1, 2011 can retire at 62 with six years of service; judges elected or appointed on or after that date must be 67 with eight years of service.
[23] Commission on Government Forecasting and Accountability, *Request for Proposals to Provide Consulting Services*, February 17, 2011, p. 2.
[24] Public Act 97-0695.

did not specify how retiree health insurance premiums would be determined, leaving that decision to the State's Department of Central Management Services (CMS).

The State negotiated retiree health benefits with its largest union, the American Federation of State, County and Municipal Employees (AFSCME), during the collective bargaining process for a new contract to replace an agreement that expired on June 30, 2012. A new three-year contract, covering FY2013 through FY2015, was ratified by union members in March 2013 but has not yet been signed.[25]

Administration officials have said that they are required to negotiate on retiree health insurance because State officials have followed that practice since the early 1990s.[26] The administration has cited a provision of the Illinois Public Labor Relations Act that requires collective bargaining with regard to matters that were previously the subject of labor negotiations.[27]

Under the new contract, retiree payments are not based on the cost of the health insurance. Retirees who are eligible for Medicare will pay 1% of their pension toward health insurance beginning July 1, 2013 and another 1% beginning July 1, 2014.[28] Retirees not eligible for Medicare, who are more expensive for the State to cover, will contribute 2% of their pensions on July 1, 2013, and another 2% starting on July 1, 2014.

Based on the negotiated agreement, the State issued information in April 2013 showing it expected $128 million in savings due to increased retiree contributions in FY2014 and FY2015.[29] The State also expects to save $38 million by giving retirees not eligible for Medicare a $500 a month incentive to opt out of the State group health insurance plan and get other coverage.[30]

Because the new contract has not been signed by AFSCME, cost estimates are not final. However, COGFA recently estimated that retirees will contribute $77.9 million, or 10.3% of their total costs of $758.7 million, in FY2014.[31] A previous COGFA report showed that retirees were expected to pay 3.6% of their health insurance costs in FY2013.[32] It could not be determined whether the data were comparable due to the transfer of the program from the Department of Healthcare and Family Services to CMS as of July 1, 2012.[33] In FY2014 the average monthly premium will be $82 for a non-Medicare retiree and $48 for a Medicare retiree.[34]

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[25] Doug Finke, "AFSCME to take another vote on contract," *State Journal-Register*, April 30, 2013.
[26] Communication between the Civic Federation and the Governor's Office of Management and Budget, March 6, 2013.
[27] 5 ILCS 315/4.
[28] Doug Finke, "AFSCME ratifies contract with Quinn administration," *State Journal-Register*, March 20, 2013. Employees will pay 1% of their salaries toward health insurance premiums.
[29] Illinois Department of Central Management Services, *AFSCME 2012-2015 Contract Summary*, Submission to Commission on Government Forecasting and Accountability, April 16, 2013.
[30] This provision requires a change in State law. Senate Bill 1515, which includes the change, passed the House on April 9, 2013 but has not been considered by the Senate.
[31] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 13.
[32] Commission on Government Forecasting and Accountability, *FY2013 Liabilities of the State Employees' Group Health Insurance Program*, March 2013, p. 13.
[33] Communication between the Civic Federation and the Illinois Department of Central Management Services, May 8, 2013.
[34] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 16.

In response to concerns about the cost of the State's health insurance program, COGFA hired the Mercer consulting firm in 2011 to study retiree health insurance contributions. The firm's report, issued in May 2011, cited a national survey of large employers in 2010, which found that retirees and dependents were required to pay an average of slightly more than 50% of the total cost of retiree healthcare.[35] Using this benchmark, Mercer said that the State could save $260 million to $300 million in FY2012 by increasing premiums for retirees and their dependents.[36]

The State also contributes to the Teachers' Retirement Insurance Program (TRIP), which covers retired teachers outside of Chicago. Retirees in TRIP, unlike most retirees in the State group health program, have been required to pay health insurance premiums.

Retirees covered by TRIP effectively obtain subsidies if they live out of state. Under Illinois law, TRIP retirees who do not have access to the State's managed care networks—including those who live outside of Illinois—pay half as much in premiums for the traditional health plan.[37]

For example, the monthly premium in FY2014 is $359.99 for a TRIP retiree aged 65 or older without Medicare who does not have access to managed care and $719.96 for the same retiree who does have access to managed care.[38] The monthly premium is $104.44 for a Medicare-eligible TRIP retiree without access to managed care and $208.87 for the same retiree with access to managed care. Managed care plans are available in all Illinois counties.[39]

Expansion of Medicaid Under the Affordable Care Act

The Civic Federation recommends that the State of Illinois expand eligibility for Medicaid under the Affordable Care Act due to the resulting significant increase in federal resources compared to projected State expenditures. However, the Civic Federation also recommends that the State plan for additional costs relating to both newly eligible and previously eligible recipients. Any savings due to costs previously covered by the State that are fully or partly covered by the federal government under the ACA should be set aside to pay additional State costs.

The State is facing a decision on whether to expand Medicaid eligibility under the Affordable Care Act (ACA) in 2014. For newly eligible recipients, the State would not bear additional costs until calendar year 2017 because the federal government reimburses 100% of costs from 2014 through 2016. HFS expects 342,000 newly eligible recipients to enroll by 2017. According to HFS estimates, Illinois is expected to receive $12.2 billion in additional federal revenues due to the ACA from 2014 to 2020. The State would pay $573.3 million for newly eligible recipients from 2017 to 2020, when the reimbursement rate declines from 95% to 90%.

In addition, many individuals who were previously eligible but not enrolled in the program are expected to enroll regardless of the State's decision on expansion. HFS expects 168,000 previously eligible individuals to enroll by 2017. HFS believes that these individuals will enroll

[35] Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, p. 2.
[36] Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, p. 2.
[37] 5 ILCS 375/6.5(e)(2) and (3).
[38] State of Illinois, Department of Central Management Services, *Benefit Choice Options*, Teachers' Retirement Insurance Program, Enrollment Period May 1 – May 31, 2013, p. 4.
[39] State of Illinois, Department of Central Management Services, *Benefit Choice Options*, Teachers' Retirement Insurance Program, Enrollment Period May 1 – May 31, 2013, p. 9.

because of publicity surrounding the ACA and policies that steer individuals to Medicaid if they are not eligible to obtain insurance coverage through a new ACA-mandated health insurance exchange. Federal reimbursement for previously eligible recipients will be at the regular rate of 50% in Illinois. Civic Federation calculations, based on HFS data, show that the State's total net cost for these recipients (after federal reimbursement) would be $1.2 billion from FY2014 to FY2018.[40]

Capital Improvement Plan

Before reauthorizing or expanding the State's capital budget, the Civic Federation urges the State to establish a comprehensive capital improvement plan (CIP) that is updated and published annually. The citizens of Illinois deserve to know the overall condition and maintenance needs of all state-owned assets and how projects in the capital budget are prioritized to meet those needs.

Although a list of nearly 5,000 appropriations accompanies the capital budget document, no planning documents are available to explain the prioritization of projects or estimates of total capital needs for the State. Very little has been publicized about the selection of projects approved in FY2010 as part of the *Illinois Jobs Now!* Program. Although the capital budget book describes a process coordinated by the Capital Development Board and the Governor's Office of Management and Budget to assemble and prioritize the projects in the capital program, no documentation of the process or final ranking of projects was included the budget. Some of the important elements of a CIP missing from the Governor's proposed capital budget include:

- A comprehensive inventory of all state owned assets, with description of useful life and current condition;
- A five-year summary list of all projects and expenditures per project as well as funding sources per project;
- Criteria for projects to earn funding in the capital budget, including a description of an objective and needs-based prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- Expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

A well-organized and annually updated CIP ensures efficient and predictable execution of capital projects. The State's capital budgeting process should use a more transparent process of determining the specific goals of infrastructure investments and the availability of pay-as-you-go funding versus leveraging the bonding authority to complete projects.

Consensus Revenue Forecast

The Civic Federation recommends that the State of Illinois establish a process under which the executive and legislative branches will develop a consensus revenue forecast prior to the publication of the Governor's budget. The State currently lacks a unified revenue projection and

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[40] For more information on projected costs related to the Affordable Care Act, see the Civic Federation's Institute for Illinois' Fiscal Sustainability, *State of Illinois FY2014 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, February 25, 2013, pp. 29-38, http://www.civicfed.org/iifs/publications/IllinoisRoadmapFY2014.

the varying estimates on the amount of resources available limit the effectiveness of the State's budget process.

An important first step in preparing a government budget is the preparation and publication of revenue estimates for the upcoming fiscal year. The estimates provide the basis for the spending decisions that are subsequently incorporated into the budget. For many decades in Illinois, the revenue estimates have been determined by the executive branch. However, for the past three fiscal years there has been an ongoing dispute between the Governor and the General Assembly regarding which revenue estimates to use as the basis of the state's annual spending plan. This is in contrast to many states where the executive and legislative branches develop a consensus revenue estimate that guides the development of the Governor's budget.

In FY2012 and FY2013, the Illinois budget approved by the General Assembly used revenue estimates originating in the House of Representatives rather than the Governor's Office. The stated purpose of this move was to set spending caps based on the House revenue forecasts.

The legislature's revenue estimates were established after the Governor had proposed his budget in FY2012 and FY2013. However, this year for the FY2014 budget, the Illinois House approved a revenue projection in House Resolution 83 that was significantly below the Governor's revenue estimates one day before the Governor issued his recommended budget. The revenue projection in HR83 matched the revenue analysis presented to the General Assembly by COGFA and published on February 5, 2013.[41] The Senate is expected to use the same revenue estimate in its appropriation deliberations as the House.[42]

During the discussion of HR83 on the House floor, it was noted that the Governor's revenue number was expected to be above the House projection and that approval of the measure would put the House at odds with the Governor's spending plan.

The Governor's budget recommendation is based on projected FY2014 General Funds revenues of $35.6 billion. The House estimated that General Funds revenues in FY2014 would be $549 million lower at $35.1 billion.

The National Advisory Council on State and Local Budgeting (NACSLB) recommends that governments develop a process for achieving consensus on revenue estimates prior to budget development. This removes forecasts from being an object of dispute and ensures the implementation of a more efficient, stable budget process. A formal consensus process also ensures a critical review of the assumptions underlying forecasts. The development of a consensus forecast requires a process that is transparent, consistent and trusted by all parties involved.

The NACSLB notes that the process for achieving a revenue forecast will vary by government. Options include collaboration between the executive and legislative branches, using academic or private sector economists to develop the forecast or some combination of both approaches.[43]

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[41] Commission on Government Forecasting and Accountability, *House Revenue Committee, Economic Outlook*, February 5, 2013, p. 24.
[42] Illinois State Senator Heather Steans, Chairman of the Senate Appropriations I Committee, Constituent email communication, March 29, 2013.
[43] See Recommended Budget Practice 9.2d: Achieve Consensus on a Revenue Forecast. National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*. 1999, p. 48.

According to the National Conference of State Legislatures, 22 states develop a consensus revenue forecast that usually includes representation from the executive and legislative branches. In 17 states the executive branch alone prepares the revenue forecasts and in the remaining 11 states there are varying degrees of executive-legislative cooperation in producing the estimates.[44] Four examples of states that have developed a formal consensus revenue forecast include Connecticut, Kansas, Michigan and Wyoming. These states have guidelines for establishing a common estimate that include deadlines for publishing the agreed amount, independent analysis of the projections and steps for updating the estimates the fiscal year progresses.[45]

Governor Quinn's Budgeting for Results Commission stated in its November 2012 report that it will survey consensus revenue forecasting practices in other states in order to recommend a similar process for Illinois.[46]

Economic Development Policy

The Civic Federation recommends that the State of Illinois develop a formal economic development policy to guide the awarding of incentives. The State does not currently have a comprehensive policy on economic development incentives. Instead, the State has a wide variety of incentives reducing specific State or local tax burdens that are provided mostly upon request by corporations. This creates an uncertain tax environment for businesses in Illinois and, as witnessed during the fall 2011 veto session, can leave the State vulnerable to competition from other states that try to entice businesses with financial incentives to relocate or expand outside of Illinois.

In FY2011, the most recent year for which data are available, the State spent a total of $410.0 million on tax incentives for businesses.[47] According to 2009 Illinois Department of Revenue data, only 0.7% of the more than 450,000 corporations filing taxes in Illinois take advantage of these tax incentives. As discussed in the Governor's three-year projection, the various incentives approved in the fall of 2011 are expected to reduce State revenues by approximately $100 million annually.

The Government Finance Officers Association has developed a best practice on economic development planning for state and local governments and recommends jurisdictions using economic development incentives create a policy on the appropriate parameters for use of such incentives.[48] At a minimum, an economic development policy should contain the following elements:

Goals and Objectives: Goals and measurable objectives create context and accountability for the use of economic development incentives. Common goals used in economic development include: target economic sectors, business retention and/or recruitment, geographic focus, job creation,

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[44] www.ncsl.org.default.aspx?tabid=12637
[45] For more information on revenue forecasting in other states, see the Civic Federation's Institute for Illinois' Fiscal Sustainability blog, http://www.civicfed.org/iifs/blog/illinois-lacks-executive-legislative-consensus-revenue-estimates.
[46] State of Illinois, Budgeting for Results Commission, *2nd Annual Report*, November 1, 2012, p. 8.
[47] State of Illinois, Comptroller, Tax Expenditure Report FY2011, August 2012, p. 8.
[48] Government Finance Officers Association, *Best Practices and Advisories, Economic Development*, http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130 (last visited May 10, 2013).

blight mitigation, improving economically distressed neighborhoods and environmental improvements.

Financial Incentive Tools and Limitations: An economic development policy should define the types of incentives and the extent to which the jurisdiction will use them. For example, governments may choose to grant an entitlement to any firm that meets minimum qualifications, or may choose to provide incentives based on an assessment of individual firms. Governments may also establish maximum funding for a particular program.

Evaluation Process: A clearly defined evaluation process should be outlined in an economic development policy for the purposes of consistency and transparency. Evaluation activities and factors typically include:

- How a proposal measures up to established economic development criteria;
- A cost/benefit analysis;
- An evaluation of tax base impact, both in terms of increases in taxable value and, where a Tax Increment Financing (TIF) district is proposed, the impact on all overlapping taxing jurisdictions;
- Analysis of the impact of a project on existing businesses;
- A determination of whether the project would have proceeded if the incentive is not provided; and
- A jurisdiction may also wish to include in its policy a list of required documentation for the economic development application and the officials who are a part of the review team.

Performance Standards: An economic development policy should require that specific performance standards be established for each project receiving incentives. Not only will these performance standards help a jurisdiction gauge the effectiveness of its overall economic development program, but may also be used to recover promised financial benefits, through clawbacks or linkage agreements, of recipients failing to fulfill their commitments.

Monitoring and Compliance: A process should be established for regular monitoring of the economic development incentives granted and the performance of each project receiving incentives. The policy should also provide for organizational placement and staffing of this activity. The monitoring process should examine performance standards relative to each economic development agreement and determine whether the goals for each project are achieved within the defined timeframe. Ongoing monitoring of these projects should become part of an overall economic development program.

A transparent economic development policy would effectively curb economic brinksmanship by Illinois businesses by creating a predictable process for applying for and earning tax incentives. Such a policy should be in place before the State renews, expands or creates any economic development incentives. The policy should also determine which tax incentives are most beneficial to the State.

Budget Document Improvements

The State's annual budget document contains many useful features, but the Civic Federation recommends that its content be improved to provide readers with more information on the overall Medicaid budget, the State group health insurance program, personnel and General Funds liabilities not included in the budget.

The budget document format provides a user guide for the reader, as well as a budget summary that outlines the policy goals and objectives for the fiscal plan. Both of these sections are well done and provide the public and policymakers with useful knowledge regarding the State's finances. The FY2014 recommended budget includes for the first time an itemized list of transfers out by fund.[49] In connection with the FY2014 budget, GOMB also made available to the public for the first time a downloadable spreadsheet with detailed information on appropriations and expenditures.[50]

The FY2013 budget document for the second year includes a Budgeting for Results table, which shows all State appropriations organized by outcome and goals, rather than by agency. The table is intended to convey the State's policy priorities and objectives, the goals that are critical to achieving those outcomes and how agencies and programs fit into this framework. Although the State is still in the early stages of implementing outcome-based budgeting, this new table provides useful information on how resources are used.

However, the budget is lacking in other critical areas, including its presentation of the overall Medicaid program. Medicaid involves several State agencies and has no single programmatic appropriation in the State budget. The Medicaid program in Illinois is administered primarily by the Illinois Department of Healthcare and Family Services (HFS), and the Medical Assistance program at HFS is often used as the best available approximation to the Medicaid program. The Budgeting for Results table includes a healthcare-related outcome that approximates the overall Medicaid program but more detailed information is needed. This is particularly critical as the State moves more of its Medicaid program into managed care and attempts to shift more spending from institutional to community care. Both of these efforts affect a number of agencies.

Although COGFA publishes detailed information on the group health insurance program in an annual report that is typically issued in March, the State budget has little useful information on group health insurance.[51] The total appropriation numbers presented for the program cannot be used in evaluating program funding because of double counting. General Funds group health appropriations and Road Fund group health appropriations are also included in Other State Funds appropriations. The budget should include an explanation of the program's funding and the appropriation numbers.

The State's General Funds accounts payable are shown in budget tables, but other General Funds liabilities are not presented in any detail. In the FY2014 budget, the Governor's Office for the first time presents an estimate of total unpaid bills at the end of FY2012, FY2013 and FY2014, including General Funds accounts payable and other General Funds liabilities.[52] Although this information is useful, no breakdown is provided for Other General Funds liabilities. Other General Funds liabilities have included Medicaid bills, group health insurance claims and unpaid income tax refunds. A breakdown is needed to understand the allocation of State resources.

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[49] Illinois State FY2014 Budget, pp. 2-62 to 2-63.

[50] State of Illinois, Governor's Office of Management and Budget, *Operating Budget Detail*, http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202014/FY2014IllinoisOperatingBudgetDetail.xls (last visited on May 2, 2013).

[51] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Insurance Program*, May 2013. This year's report was delayed due to protracted labor negotiations.

[52] Illinois State FY2014 Budget, p. 2-3.

The budget also provides minimal information with regard to personnel. The only aggregate information on state personnel in the FY2014 budget document consists of a chart depicting employee headcount and an accompanying descriptive paragraph. Although the chart only contains headcount information for agencies under the Governor, it is not labeled to explain that personnel related to the constitutional offices, the General Assembly, the judicial branch and certain other agencies are excluded. The Governor's Office of Management and Budget (GOMB) does not include headcount for agencies not under the Governor because those headcounts reflect budget requests to the Governor and not the Governor's recommendations. The budget does not include any aggregate information on salary costs. The budget has no information on headcount or salary costs for General Assembly staff because this is not made available to the Governor's Office of Management and Budget.

Personnel data should be aggregated in one section of the budget and include positions across all funds and for all departments. If necessary, separate tables should be provided for agencies under the Governor and agencies not under the Governor. The General Assembly should make headcount and salary cost information available to GOMB.

Special Funds Consolidation

The Civic Federation recommends that Special State Funds should be reviewed annually and consolidated and/or eliminated except in very high priority situations.

Special State Funds consist of all State funds except General Funds, bond-financed funds, debt service funds, federal trust funds and State trust funds. The vast majority of the more than 300 Special State Funds were created to receive earmarked revenues that are only used for a designated purpose.

Over time, the number of special funds has increased, consuming ever larger portions of the State budget. In most cases, segregating revenues into special purpose funds is a practice that should only be adopted for certain high priority or mandatory programs. The State should be afforded maximum flexibility in allocating resources to meet policy priorities.

REVENUES

Governor Pat Quinn's recommended FY2014 budget is based on total State revenues of $59.6 billion.[53] This includes $35.6 billion in General Funds revenues, which are the sources of funding that the Governor and General Assembly have the most discretion over during the annual appropriation process.[54] The remaining revenues are primarily designated funding used to support spending in the Other State Funds or federal grants for specific purposes outside of the General Funds budget.

The largest sources of State revenues are income taxes and sales taxes, which make up 74.0% of the total General Funds revenues in FY2014. General Funds revenues also include federal revenues, which primarily represent reimbursements for Medicaid spending by the State. The federal government generally reimburses State Medicaid spending at a rate of 50%.[55]

This section reviews the Governor's projections in the FY2014 budget, focusing primarily on General Funds revenues and recent State revenue trends.

Economic Indicators

Due to the economic sensitivity of both income taxes and sales taxes, the Governor's Office undertakes a detailed analysis of key indicators for these sources prior to the publication of the Governor's budget. The revenue projections included in the Governor's budget are developed based on an analysis provided by the consulting firm of IHS Global Insight. The consultant's forecasts are then reviewed by the Governor's Council of Economic Advisors, the Illinois Department of Revenue (IDOR), the Illinois Department of Employment Security (IDES) and the Governor's Office of Management and Budget (GOMB) to develop the projections for the coming fiscal year. IDOR provides its own analysis of growth in wages and salaries based on employment data from IDES to produce the Governor's income tax revenue projections.[56] The budget document also shows baseline national economic indicators provided by Moody's Economy.com to the General Assembly.[57]

In general, the FY2014 revenue projections assume fairly limited economic growth and expectations that Illinois will continue to lag behind national trends. Two of the key economic indicators used to forecast income tax revenues include the State's unemployment outlook and the anticipated change in total wages and salaries earned by workers in the State. IDES anticipates growth of 0.9% in FY2013 and 1.0% in FY2014 for total non-farm workforce in Illinois, compared to the IHS Global Insight baseline forecast of 0.9% and 1.4%. National employment growth will slightly outpace Illinois, according to IHS Global Insight, totaling 1.3% in FY2013 and 1.6% in FY2014.

According to IDES data, as of March 2013 Illinois' seasonally adjusted unemployment rate stood at 9.5% compared to the national unemployment rate of 7.6%.

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[53] Illinois State FY2014 Budget, p. 2-15.
[54] Illinois State FY2014 Budget, p. 2-62.
[55] For more information on Medicaid, see page55 of this report.
[56] Illinois State FY2014 Budget, p. 3-10.
[57] Illinois State FY2014 Budget, p. 3-5.

Using IDES projections for growth in employment, IDOR forecasts that wages and salaries in Illinois will grow a total of 2.9% in FY2013 and 3.5% in FY2014, compared to IHS Global Insights' baseline projection for Illinois of 3.0% in FY2013 and 3.9% in FY2014.[58]

Growth in retail sales is the indicator that most closely correlates to the expectations for revenue generated by the State's sales taxes. Nationally, IHS Global Insight projects that retail spending will increase by 3.1% in FY2013 and 3.4% in FY2014. In Illinois, retail sales are expected to grow annually by only 2.9% and 1.2% in FY2013 and FY2014 respectively.[59]

According to the budget document, federal fiscal policies present the biggest risk to the revenue forecast in the Governor's FY2014 budget.[60] The projections assume that the package of $110 billion in annual federal spending cuts, referred to as sequester, will be replaced by a broader package of reduced spending cuts and new revenues.[61] The IHS Global Insight analysis assumes only a 0.1 percentage-point reduction in national Gross Domestic Product due to reduced federal spending. However, if a compromise is not reached and the federal cuts are implemented for the full fiscal year, it is expected that the loss of GDP will triple, which would require downward revisions of the current revenue projections for FY2014.[62]

After the growth rates are determined for each State revenue source and gross receipts are calculated, the projections are adjusted for any changes in tax policy, transfers set aside for refunds and any other noneconomic factors that may limit the amount of these resources available to support State spending.

The State enacted a package of tax reductions for businesses and individuals in December 2011 that took effect in FY2013.[63] The tax changes included a reduction in corporate income tax liabilities for the CME Group, which operates the Chicago Mercantile Exchange and the Chicago Board of Trade. The legislation reduced the sales factors for the exchanges to 63.77% during FY2013 and will further reduce the rate to 27.54% during FY2014.[64] By reducing the sales factor percentage, the State reduced the corporate income tax liability for CME.

The State also partially reinstated the net operating loss (NOL) deduction for Illinois businesses. The State suspended the net operating loss deduction for businesses, other than Subchapter S corporations, through December 31, 2014 as part of the income tax increase in January 2011.[65] The NOL deduction allows businesses reporting a loss in total annual income to reduce future tax liabilities by their losses and spread the amounts out for up to 12 years. The deduction was reinstated but capped at $100,000 per year in the legislation enacted in December 2011.[66]

The Earned Income Tax Credit (EITC) is a federal program that allows low and moderate income workers to reduce their tax burden and receive tax refunds. Since January 1, 2000, Illinois has allowed individuals who qualify for the program to claim 5% of the federal credit

[58] Illinois State FY2014 Budget, p. 3-6.
[59] Illinois State FY2014 Budget, p. 3-6.
[60] Illinois State FY2014 Budget, p. 3-8.
[61] Illinois State FY2014 Budget, p. 3-8.
[62] Illinois State FY2014 Budget, p. 3-8.
[63] Public Acts 97-0636 and 97-0652.
[64] Public Act 97-0636.
[65] Public Act 96-1496.
[66] Public Act 97-0636.

toward their State income tax returns. The State increased this credit in Illinois to 7.5% in FY2012 and 10% in FY2013.

The standard personal income tax deduction in Illinois was set at $2,000 on December 31, 2000. Public Act 97-0652 increases that amount to $2,050 in FY2013 and increases the exemption each year thereafter by the change in the Consumer Price Index for All Urban Areas to account for inflation. The increase in personal tax exemption is expected to cost the State an additional $11 million in FY2013 and $22 million in FY2014.

The State undertook a tax amnesty program in FY2011 to bolster revenue in that year. However, the additional revenues collected in FY2011 reduced anticipated revenues in future years that would have been received through regular tax enforcement activities. Although the effect on the sales taxes and personal income taxes has since been accounted for, corporate income tax revenues in FY2013 and projected revenues in FY2014 are still impacted by the amnesty program.

The Illinois tax code is coupled to the federal tax code, which leads to increases and decreases in State revenue when the federal government changes its tax policies. The largest loss of revenue due to federal tax policy changes in recent years is attributable to federal bonus depreciation, also referred to as 100% expensing. The U.S. Congress enacted a change to federal corporate tax depreciation provisions at the end of calendar year 2010 that is expected to offset a significant amount of the growth in State income tax revenues for FY2012 and FY2013.[67] The change allows businesses to deduct 100% of the cost of equipment and machinery purchased and put into operation between September 8, 2010 and December 31, 2011. In the 2012 calendar year, the law allows businesses to continue to reduce their taxable income but only by 50% of the cost of capital equipment purchases. After this provision expires in FY2013, the State expects an increase in revenues in FY2014 due to the reduced deductions.

[67] Illinois State FY2012 Budget, p. 5-15.

The following chart shows the adjustments made to State income tax projections due to recent tax policy changes by Illinois and the federal government.

State of Illinois Revenue Income Tax Adjustments Due to Tax Policy Changes (in $ millions)		
Description	**FY2013**	**FY2014**
Illinois Tax Policy		
CME Sales Factor Change*	$ (85)	$ (85)
Live Theater Production Credit	$ (2)	$ (2)
Earned Income Tax Credit	$ (11)	$ (22)
Personal Exemption Increase	$ (30)	$ (50)
Net Operating Loss Suspension and Cap	$ 300	$ 300
Corporate Tax Amnesty (FY2011)	$ (20)	$ (26)
Federal Tax Policy		
Increased Capital Gains Tax	$ 260	$ (130)
Federal Bonus Depreciation	$ (250)	$ 65
Total	**$ 162**	**$ 50**

*CME Sales Factor is reduced to 63.77% for the 2013 calendar year and then 27.54% thereafter.

**Net Operating Loss Deduction was suspended completely by Public Act 96-1496 but is now capped at $100,000 through December 31, 2014 and then is fully reinstated under Public Act 97-0636.

Source: Illinois State FY2014 Budget, pp. 3-11, 3-12.

Although not included in the Governor's FY2014 General Funds revenue projections, Governor Pat Quinn proposed three additional tax treatments to increase revenues in FY2014, including taxing foreign dividends, repealing exceptions to the non-combination rule and decoupling from the federal domestic production activities deduction. The additional revenue generated by these changes would then be set aside to pay down the State's backlog of unpaid bills.

These recommendations have been included in legislation, Senate Bill 1159 Amendment 1, and would increase revenues by an estimated $445 million annually. According to estimates from the Governor's Office, the majority of the revenue increase would come from taxing dividends paid by foreign companies to their domestic parent corporations, which would raise $320 million in corporate tax revenues. The elimination of exceptions to the non-combination rule that allows financial organizations, insurance companies and transportation companies in Illinois to avoid the State law limiting the ability of companies to shift revenues or expenses from one arm of a corporate entity to another to decrease tax liabilities would raise an estimated $25 million. Finally the bill would decouple the State from the part of the federal tax code that allows companies engaged in in certain production activities to reduce their taxable income related to those industries by 9.0%. This component would increase State revenues by $100 million.

General Funds Revenues

In FY2014 General Funds revenues are projected to increase by $706 million, or 2.0%, to $35.6 billion, up from $34.9 billion in FY2013. The majority of General Funds revenue sources that are used to pay for the State's regular operations are made up of personal income tax, corporate income tax and sales taxes. The increase in FY2014 General Funds revenues comes mostly from income taxes, which increase $648 million to $19.0 billion in FY2014 from $18.3 billion in FY2013. Personal income taxes make up $407 million of the increase and $241 million comes from the corporate income tax.

Sales taxes increase by $50 million, or less than 1.0%, to $7.4 billion in FY2014 from $7.3 billion in FY2013. Federal revenues that support General Funds are projected to be relatively flat at $4.2 billion in FY2014; the total federal revenue increase of $27 million is less than 1.0% from FY2013.

Both income taxes and sales taxes declined dramatically during the recession that began in December 2007 and lasted until June 2009.[68] Total State-source General Funds revenues declined by $3.4 billion from $24.8 billion in FY2008 to $21.5 billion in FY2010.[69] Although revenues began to stabilize and show marginal growth in FY2011, overall revenue projections remained weak when the State enacted its FY2011 budget.

On January 13, 2011, halfway through the FY2011 fiscal year, the State approved temporary increases for both the personal and corporate income tax rates.[70] The corporate income tax rate was increased from 4.8% to 7.0% and the personal income tax rate was increased from 3.0% to 5.0%.[71] The rate increases, as enacted, are temporary and will partially sunset on January 1, 2015. The personal income tax rate declines from 5.0% to 3.75% and the corporate income tax rate will be reduced from 7.0% to 5.25%. Under the current law, the rates roll back again on January 1, 2025, when the personal income tax rate declines to 3.25% and the corporate rate returns to 4.8%.

Although total gross income tax receipts are well above the peak FY2008 level, this is only due to the higher rate. The gross receipts expected from the first 3 percentage points of the projected FY2014 personal income taxes total $10.7 billion compared to gross revenues of $11.2 billion in FY2008. The corporate income taxes anticipated from the first 4.8 percentage points are expected to bring in $2.1 billion in FY2014, compared to $2.2 billion in FY2008.

[68] National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," September 20, 2010.
[69] Illinois State Budgets: FY2009-FY2012.
[70] Public Act 96-1496.
[71] The State also collects Personal Property Replacement Tax from businesses in Illinois on behalf of local governments of 2.5%, which increases the total effective corporate tax rate to 9.5%.

The following table shows the gross and net income tax receipts attributable to the original rates and increased increments from FY2008 through FY2014.

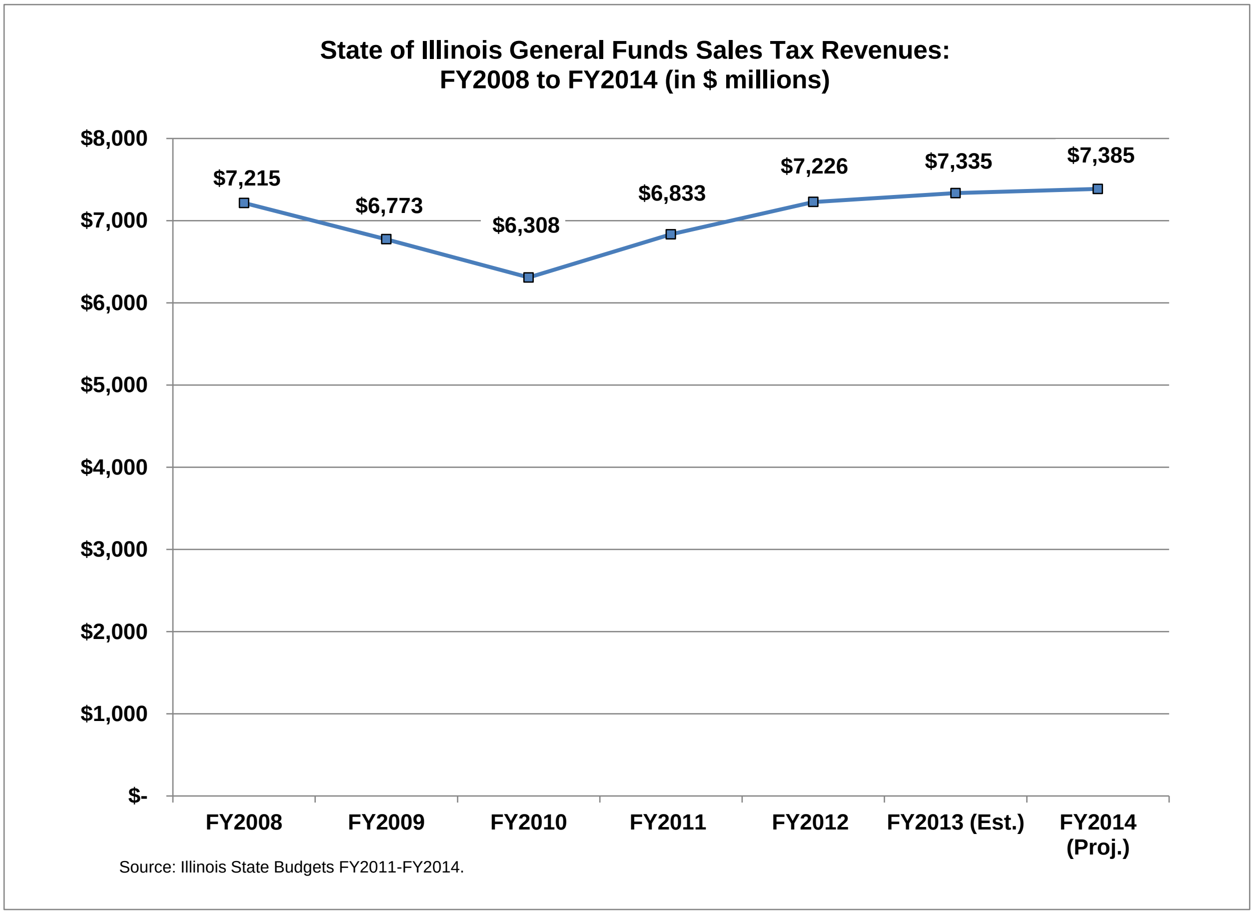
State of Illinois Income Tax Revenues FY2008-FY2014 (in $ millions)							
Income Tax Increment	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013 (Est.)**	**FY2014 (Proj.)**
Personal Income Tax							
Personal Base (3.0%)	$ 11,187	$ 10,219	$ 9,430	$ 9,795	$ 10,215	$ 10,320	$ 10,710
Personal Increase (2.0%)	$ -	$ -	$ -	$ 2,507	$ 6,668	$ 6,880	$ 7,140
Deductions, Credits and Refund Fund Transfer	$ (867)	$ (938)	$ (920)	$ (1,076)	$ (1,371)	$ (1,534)	$ (1,777)
Net Personal Income Tax	**$ 10,320**	**$ 9,281**	**$ 8,510**	**$ 11,226**	**$ 15,512**	**$ 15,666**	**$ 16,073**
Corporate Income Tax							
Corporate Base (4.8%)	$ 2,201	$ 2,073	$ 1,649	$ 2,106	$ 2,069	$ 2,120	$ 2,095
Corporate Increase (2.2%)	$ -	$ -	$ -	$ 180	$ 949	$ 965	$ 960
Deductions, Credits and Refund Fund Transfer	$ (341)	$ (363)	$ (289)	$ (246)	$ (557)	$ (429)	$ (158)
Net Corporate Income Tax	**$ 1,860**	**$ 1,710**	**$ 1,360**	**$ 2,040**	**$ 2,461**	**$ 2,656**	**$ 2,897**
Total Income Taxes (net)	**$ 12,180**	**$ 10,991**	**$ 9,870**	**$ 13,266**	**$ 17,973**	**$ 18,322**	**$ 18,970**

Source: Illinois State FY2014 Budget, pp. 3-11, 3-12; Illinois State FY2010 Budget, p. 5-7; Illinois State FY2011 Budget, pp. 4-8, 4-9.

The second largest source of General Funds revenues collected by the State on an annual basis is sales taxes. The State taxes the sale of tangible personal property at a rate of 6.25%; however the State keeps only 5.0% of the purchase price while 1.25% is passed on to local governments. The State sales tax rate has remained the same since 1990, when the share for local governments was added to the State rate of 5.0%.

Despite significant revenue losses during the economic downturn, the State did not alter the sales tax rate. Total sales tax revenues declined from $7.2 billion in FY2008 to $6.3 billion FY2010. Sales tax revenues have remained relatively flat over the last three fiscal years since economic growth resulted in a return to the prerecession FY2008 total of $7.2 billion in FY2012. The FY2014 sales tax projections total $7.4 billion, an increase of $50 million, or 0.7%, from the estimated FY2013 total of $7.3 billion.

The following chart shows General Funds sales tax revenues from FY2008 through the budget projections for FY2014.



The largest increase in the General Funds revenue other than income taxes projected for FY2014 is a one-time transfer of $186 million from the State Gaming Fund included in the 'other sources' revenue category but not specified in the Governor's projections. Transferring these funds to the General Funds for operating resources would require a change in the law. If no action is taken by the General Assembly to facilitate this recommendation the funds would be sent to the Horse Racing Equity Fund.[72]

[72] Commission on Government Forecasting and Accountability, *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update,* March 12, 2013, p. 26.

Most other sources of General Funds revenues are projected to be flat or fall slightly from FY2013 to FY2014. The following table compares current estimates for FY2013 General Funds revenue to the Governor's projections for FY2014.

State of Illinois General Funds Revenues: Estimated FY2013 and Projected FY2014 (in $ millions)	FY2013 (Est.)	FY2014 (Proj.)	$ Change	% Change
State Taxes				
Income Taxes (net)	$ 18,322	$ 18,970	$ 648	3.5%
Personal (net)	$ 15,666	$ 16,073	$ 407	2.6%
Corporate (net)	$ 2,656	$ 2,897	$ 241	9.1%
Sales Taxes	$ 7,335	$ 7,385	$ 50	0.7%
Public Utility Taxes	$ 1,101	$ 1,079	$ (22)	-2.0%
Cigarette Tax	$ 355	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 166	$ 168	$ 2	1.2%
Estate Tax	$ 227	$ 169	$ (58)	-25.6%
Insurance Taxes & Fees	$ 315	$ 325	$ 10	3.2%
Corporate Franchise Tax & Fees	$ 204	$ 203	$ (1)	-0.5%
Interest on State Funds & Investments	$ 15	$ 15	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 423	$ 611	$ 188	44.4%
Total State Taxes	**$ 28,707**	**$ 29,524**	**$ 817**	**2.8%**
Transfers			$ -	
Lottery	$ 656	$ 669	$ 13	2.0%
Riverboat Transfers & Receipts	$ 350	$ 356	$ 6	1.7%
Proceeds From 10th Gaming License	$ 14	$ 10	$ (4)	-28.6%
Other	$ 1,046	$ 893	$ (153)	-14.6%
Total Transfers	**$ 2,066**	**$ 1,928**	**$ (138)**	**-6.7%**
State Revenues	**$ 30,773**	**$ 31,452**	**$ 679**	**2.2%**
Federal Sources	**$ 4,151**	**$ 4,178**	**$ 27**	**0.7%**
Total Revenue	**$ 34,924**	**$ 35,630**	**$ 706**	**2.0%**

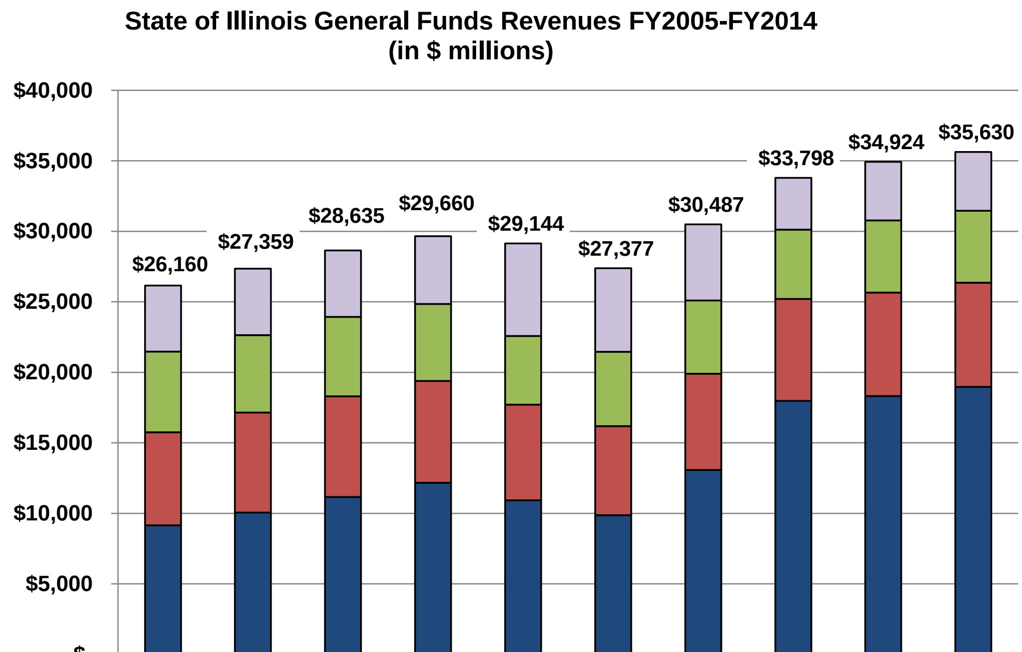
Source: Illinois State FY2014 Budget, p. 2-65.

Based on the Governor's FY2014 projections, total General Funds revenues are projected to increase by $9.4 billion over the last 10 fiscal years. This represents an increase of 36.2% from the total of $26.2 billion in FY2005.

Nearly all of the General Funds revenue growth is attributable to the temporary income tax increase passed halfway through FY2011. Total General Funds revenues from income taxes will increase by $9.5 billion between FY2005 and FY2014, from $9.2 billion to $19.0 billion. This represents an increase of 107.3% over the last 10 years. Meanwhile sales taxes increased by only $790 million, or 11.0%, between FY2005 and FY2014. Other state sources and federal revenues declined from FY2005 to FY2014 by $626 million and $513 million respectively.

The income tax increase created a greater disparity among revenue sources that support General Funds operations. In FY2005 income taxes made up 35.0% of the State's General Funds resources, while sales taxes accounted for 25.2%, federal revenues 17.9% and other sources 21.9%. The FY2014 projections show income taxes making up 53.2% of General Funds revenues, with sales taxes totaling 20.7%, federal revenues 11.7% and other sources 14.3%. The shift in State revenue funding makes the State much more reliant on a single source of economically sensitive revenue and more vulnerable to downward changes in business cycle. In general governments should strive for a more balanced revenue profile in order to better handle fluctuations in the economy.[73]

The following chart shows the 10-year growth in General Funds revenue by major source from FY2005 through the projections for FY2014.



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 (Est.)	FY2014 (Proj.)
Total	$26,160	$27,359	$28,635	$29,660	$29,144	$27,377	$30,487	$33,798	$34,924	$35,630
Federal	$4,691	$4,725	$4,702	$4,815	$6,567	$5,920	$5,386	$3,681	$4,151	$4,178
Other State Taxes and Transfers	$5,723	$5,479	$5,638	$5,450	$4,871	$5,279	$5,192	$4,918	$5,116	$5,097
Sales Taxes	$6,595	$7,092	$7,136	$7,215	$6,773	$6,308	$6,833	$7,226	$7,335	$7,385
Income Taxes	$9,151	$10,063	$11,159	$12,180	$10,933	$9,870	$13,076	$17,973	$18,322	$18,970

Source: Illinois State Budgets FY2007-FY2014.

Inflation as measured by the average annual Consumer Price Index for all urban areas has grown by 15.9% between 2005 and 2012, the most recent full year that data are available.[74]After adjusting for inflation, FY2005 General Funds revenue totals $30.3 billion in 2012 dollars, which reduces the 10-year revenue increase in real dollars to $5.3 billion, or 17.5%.

General Assembly Revenue Estimate

On March 5, 2013, the day prior to the release of the Governor's FY2014 recommended budget, the Illinois House of Representative approved a revenue projection that was significantly below the Governor's revenue projections. House Resolution 83 states that General Funds revenues in FY2014 are expected to total $35.1 billion or $549 million less than the Governor's budget. Under the resolution the revenue estimate also serves as a spending cap for the General Assembly's enacted budget.

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[73] Government Finance Officers Association, *Best Practices in Public Budgeting*, Practice 4.6: Develop Policy on Revenue Diversification, 2000.
[74] U.S. Department of Labor, Bureau of Labor Statistics, *CPI Detailed Report*, January 2013, p. 218, http://www.bls.gov/cpi/cpid1201.pdf (last visited on April 29, 2013).

The General Funds revenue projection has recently played a key role in the legislature's budget process. For the past three years, the General Assembly has begun its work on the budget by adopting a revenue projection that establishes a spending limit for the next fiscal year. However, FY2014 was the first year that a legislative revenue estimate was approved prior to the release of the Governor's budget. The House adopted House Resolution 83 on March 5, 2013 by a vote of 100 to 15. The Senate has not adopted a revenue estimate for FY2014 but is expected to use the same estimate as the House.

The General Funds revenue projection approved by the House matched the revenue analysis presented to the General Assembly by the staff of the legislature's Commission on Government Forecasting and Accountability (COGFA) and published on February 5, 2013.[75]

The following table compares the General Funds revenue projection included in the Governor's recommended FY2014 budget and the amounts included in HR83 by revenue source.

State of Illinois FY2014 General Funds Revenue Estimates: Governor's Recommendation Compared to House Resolution 83 (in $ millions)				
Sources	**HR83**	**Governor's Rec.**	**$ Difference**	**% Difference**
Income Taxes	$ 18,902.0	$ 18,970.0	$ 68.0	0.4%
Personal Income Tax	$ 15,986.0	$ 16,073.0	$ 87.0	0.5%
Corporate Income Tax	$ 2,916.0	$ 2,897.0	$ (19.0)	-0.7%
Sales Taxes	$ 7,348.0	$ 7,385.0	$ 37.0	0.5%
Public Utility	$ 1,032.0	$ 1,079.0	$ 47.0	4.6%
Cigarette Tax	$ 355.0	$ 355.0	$ -	0.0%
Liquor Gallonage Tax	$ 165.0	$ 168.0	$ 3.0	1.8%
Inheritance Tax & Fees	$ 210.0	$ 169.0	$ (41.0)	-19.5%
Insurance Taxes & Fees	$ 350.0	$ 325.0	$ (25.0)	-7.1%
Corporate Franchise Tax & Fees	$ 203.0	$ 203.0	$ -	0.0%
Interest	$ 20.0	$ 15.0	$ (5.0)	-25.0%
Cook County Transfer	$ 244.0	$ 244.0	$ -	0.0%
Other	$ 437.0	$ 611.0	$ 174.0	39.8%
State-Source Taxes & Fees	**$ 29,266.0**	**$ 29,524.0**	**$ 258.0**	**0.9%**
Transfers				
Lottery	$ 669.0	$ 669.0	$ -	0.0%
Riverboat Transfers & Fees	$ 366.0	$ 366.0	$ -	0.0%
Other	$ 780.0	$ 893.0	$ 113.0	14.5%
Total Transfers	**$ 1,815.0**	**$ 1,928.0**	**$ 113.0**	**6.2%**
Total State-Sources	**$ 31,081.0**	**$ 31,452.0**	**$ 371.0**	**1.2%**
Federal Revenue	**$ 4,000.0**	**$ 4,178.0**	**$ 178.0**	**4.5%**
Total	**$ 35,081.0**	**$ 35,630.0**	**$ 549.0**	**1.6%**

Source: 98th Illinois General Assembly, House Resolution 83; Illinois State FY2014 Budget, p. 2-65.

The difference in revenue projections is mainly related to revenue transfers and income tax refunds. As mentioned earlier, the Governor's projection for other sources of revenue includes a transfer of $186 million from the State Gaming Fund that would otherwise be transferred to the Horse Racing Equity Fund. The projection passed in HR83 does not include those funds.

[75] Commission on Government Forecasting and Accountability, *House Revenue Committee, Economic Outlook*, February 5, 2013, p. 24.

The Governor's FY2014 projection also includes a transfer from the Income Tax Refund Fund of roughly $155 million due to an anticipated surplus in the fund in FY2013. The Illinois Income Tax Act requires that any surplus in the fund at the end of the year be transferred into General Funds in the following fiscal year.[76] The Refund Fund holds income tax revenues diverted from general operating funds to pay income tax refunds owed to individuals and businesses. The State had previously accumulated a large backlog of unpaid refunds owed to businesses, but as of FY2013 anticipates the backlog will be paid off and the fund will have a surplus of between $155 million and $176 million.[77] COGFA's revenue estimate, used to develop HR83, does not include the Refund Fund surplus.[78]

Due to the anticipated surplus, the Governor's recommended budget also recommends reducing the percentage of income tax revenues diverted to pay refunds—known as the Refund Fund rate. A lower Refund Fund rate means that a larger share of revenues is available for General Funds operations. The Governor's budget proposes lowering the Refund Fund rate from 9.75% in FY2013 to 9.0% in FY2014 for personal income taxes and from 14.0% to 12.0% for business income taxes. COGFA's revenue projection assumes the FY2014 Refund Fund rates are unchanged from FY2013.[79]

The following chart shows the Refund Fund rates and backlog of unpaid refunds from FY2008 through FY2014.

State of Illinois Income Tax Refund Rates and Unpaid Tax Refunds: FY2008-FY2014 (in $ millions)

	Personal Refund Rate	Unpaid Personal Refunds	Business Refund Rate	Unpaid Business Refunds*
FY2008	7.75%	$ -	15.50%	$ 3.5
FY2009	9.75%	$ 5.0	17.50%	$ 214.0
FY2010	9.75%	$ 44.0	17.50%	$ 691.0
FY2011	8.75%	$ 19.0	17.50%	$ 627.0
FY2012	8.75%	$ -	17.50%	$ 642.5
FY2013	9.75%	$ -	14.00%	$ -
FY2014**	9.00%	$ -	12.00%	$ -

*As of June 30

**FY2014 rates proposed by Governor.

Source: Illinois State FY2014 Budget, pp. 3-11 to 3-12; State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Preliminary Official Statement* , April 24, 2012, p. 41; Communication between Civic Federation staff and the Governor's Office of Management and Budget, April 12, 2013.

Refund Fund rates in the chart above were set by the Illinois General Assembly as part of the annual budget legislation. If the rates are not set legislatively prior to each year, they are

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[76] 35 ILCS 5/901(c) 4.5.

[77] Communication between Civic Federation staff and the Governor's Office of Management and Budget, April 12, 2013.

[78] Commission on Government Forecasting and Accountability, *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update,* March 12, 2013, p. 26.

[79] Commission on Government Forecasting and Accountability, *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update,* March 12, 2013, p. 26.

determined by statutory formula.[80] The formula takes into account refunds from the prior year as well as income tax revenues from the prior year. The last time the rate was set using the formula was FY1998. Since then the rate has been specifically designated in budget legislation passed by the General Assembly and signed by the Governor.[81] If the Refund Fund rate is too low then a backlog of unpaid refunds can occur.

All refunds, both personal and business, are paid out of the Income Tax Refund Fund. The Illinois Department of Revenue makes it a priority to pay personal income tax refunds to individuals, so when there is a shortfall in the fund, unpaid business refunds rise.

The Governor's recommended FY2014 budget also anticipates more federal revenues in FY2014 than the projection adopted by the House. Federal revenues in the General Funds budget mainly reflect reimbursements for State Medicaid spending. The Governor's budget assumes that the full appropriation for the Medicaid program will be spent and reimbursed in FY2014, whereas COGFA assumes that the reimbursement will be less due to possible delays in State payments.[82]

In recent years the General Assembly has relied on the revenue forecasts originating in the House for the annual budget passed by the legislature. The Governor made his budget recommendation for FY2012 on February 16, 2011 and the House adopted House Resolution 110 on March 8, 2011. The Senate adopted its own measure, Senate Joint Resolution 29 on March 17, 2011, but the budget passed by the General Assembly reflected HR110.

The FY2013 budget recommendation by the Governor was presented on February 22, 2012. The House adopted House Resolution 707 on March 1, 2012 and the Senate adopted the identical Senate Resolution 586 on March 7, 2012.

After approving the revenue projection as the coming year's spending cap, the General Assembly continues to develop the budget by passing measures allocating available resources for each fiscal year. This involves first accounting for nondiscretionary costs such as pension payments, debt service, State group health insurance and statutorily required transfers before dividing the remaining resources among the appropriations committees to fund agency budgets. In FY2013 the spending resolution also set aside a specific amount to pay down a portion of the State's backlog of unpaid bills.

The following table shows the revenue projections in the Governor's recommended budget, legislative projections, enacted budgets and revisions for FY2012 and FY2013 compared to the FY2014 projections.

[80] 35 ILCS 5/901(c)
[81] Communication between the Civic Federation and the Department of Revenue's Senate legislative staff, April 25, 2011.
[82] Commission on Government Forecasting and Accountability, *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update,* March 12, 2013, p. 26.

State of Illinois General Funds Revenues Projections and Results: FY2012-FY2014 (in $ millions)					
	Governor's Rec.	House	Senate	Enacted	Prelim./ Revised*
FY2012	$ 33,932	$ 33,173	$ 34,282	$ 33,173	$ 33,622
FY2013	$ 33,940	$ 33,719	$ 33,719	$ 33,719	$ 34,924
FY2014	$ 35,630	$ 35,081	na	na	na

*Preliminary FY2012 result as of January 2013; revised FY2013 estimate as of March 2013.

Source: Illinois State FY2014 Budget, p. 2-16; Illinois State FY2013 Budget, p. 2-18; Illinois State FY2012 Budget, p. 2-13; 98th Illinois General Assembly, House Resolution 83; 97th Illinois General Assembly, House Resolutions 707 and 110,Senate Resolution 586 and Senate Joint Resolution 29.

All Funds Revenues

General Funds revenues are the focus of State budget negotiations because they are the revenues over which the Governor and General Assembly have the most discretion. However, these funds make up just over half of the total All Funds revenues collected by the State. The Governor's FY2014 recommended budget projects total All Funds revenues of $59.6 billion. This is an increase of $505 million, or 0.9%, above the total of $59.0 billion in FY2013. The total revenues collected include state taxes, licensing fees, gaming revenues, lottery proceeds, intergovernmental transfers and federal funds. The funds that are outside of the General Funds budget are transfers to Special State Funds for designated purposes. These revenues represent earmarked funding for specific programs, capital projects, debt service and in some cases are collected on behalf of local governments.

State taxes account for $32.5 billion of the projected FY2014 All Funds revenues, which is an increase of $665 million over FY2013, or 2.1%. Other receipts from assessments and fees increase slightly from $10.4 billion in FY2013 to $10.6 billion in FY2014. The State also receives significant funding from the federal government. Total Federal Funds, which include amounts discussed previously in the General Funds revenue section, are projected to decline by $371 million to $16.5 billion in FY2014 from a total of $16.8 billion in FY2013. This represents a decline of 2.2% in total federal resources provided to the State.

The following chart compares All Funds revenue estimates for FY2013 to the projections for FY2014.

State of Illinois Revenues for All Funds: Estimated FY2013 and Projected FY2014 (in $ millions)				
	FY2013 (Est.)	FY2014 (Proj.)	$ Change	% Change
State Taxes				
Income Taxes (net)	$ 18,322	$ 18,970	$ 648	3.5%
Personal (net)	$ 15,666	$ 16,073	$ 407	2.6%
Corporate (net)	$ 2,656	$ 2,897	$ 241	9.1%
Sales Taxes	$ 7,896	$ 7,951	$ 55	0.7%
Motor Fuel Tax (gross)	$ 1,277	$ 1,271	$ (6)	-0.5%
Public Utility Taxes	$ 1,747	$ 1,714	$ (33)	-1.9%
Cigarette Taxes and Tobacco Products Taxes	$ 828	$ 877	$ 49	5.9%
Liquor Gallonage Taxes	$ 301	$ 305	$ 4	1.3%
Estate Tax	$ 242	$ 180	$ (62)	-25.6%
Insurance Taxes and Fees	$ 397	$ 407	$ 10	2.5%
Corporate Franchise Taxes and Fees	$ 232	$ 231	$ (1)	-0.4%
Riverboat Gaming Taxes and Fees	$ 596	$ 597	$ 1	0.2%
Subtotal State Taxes	**$ 31,838**	**$ 32,503**	**$ 665**	**2.1%**
Other Revenues				
Motor Vehicle and Operations License Fees	$ 735	$ 760	$ 25	3.4%
Interest Income	$ 44	$ 47	$ 3	6.8%
Revolving Fund Receipts	$ 526	$ 558	$ 32	6.1%
Lottery	$ 1,468	$ 1,645	$ 177	12.1%
Assessment Fund Receipts	$ 1,932	$ 1,993	$ 61	3.2%
Intergovernmental Receipts	$ 1,808	$ 2,101	$ 293	16.2%
Group Insurance Receipts	$ 1,649	$ 1,821	$ 172	10.4%
Tobacco Settlement Receipts	$ 122	$ 99	$ (23)	-18.9%
Other Taxes, Fees, Earnings and Net Transfers	$ 2,106	$ 1,577	$ (529)	-25.1%
Subtotal Other Revenues	**$ 10,390**	**$ 10,601**	**$ 211**	**2.0%**
Federal Revenues	**$ 16,842**	**$ 16,471**	**$ (371)**	**-2.2%**
Total	**$ 59,070**	**$ 59,575**	**$ 505**	**0.9%**

Source: Illinois State FY2014 Budget, p. 2-64.

APPROPRIATIONS AND EXPENDITURES

Governor Quinn's recommended FY2014 budget proposes total appropriations of $62.4 billion, including $31.2 billion in General Funds appropriations. Most discussion of the Illinois budget focuses on General Funds, which represent the largest component of the State budget. General Funds support the regular operating and administrative expenses of most agencies and are the funds over which the State has the most control. General Funds are funded by State revenues such as income taxes and sales taxes, and by federal revenues, which are mainly related to the Medicaid program.

The budget also includes Other State Funds, which are accounts for activities funded by designated revenue sources that may only be used for specific purposes. The last broad category of state accounts is Federal Funds, which use federal revenues outside of the General Funds to support a variety of programs.

In addition to appropriations, this section also examines the Governor's proposed General Funds expenditures. Expenditures include both appropriations and transfers out of General Funds to make debt payments and for other purposes.

Appropriations by Fund

Total appropriations increase by $2.0 billion, or 3.3%, to $62.4 billion in the Governor's proposed FY2014 budget from $60.4 billion in the FY2013 enacted budget. Over the last five years, total appropriations increase by $4.9 billion, or 8.4%, from $57.6 billion in FY2010.

State of Illinois Appropriations by Fund: FY2010-FY2014 (in $ millions)

	FY2010 Enacted*	FY2013 Revised Enacted**	FY2014 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
General Funds	$ 29,821	$ 29,609	$ 31,223	$ 1,614	5.5%	$ 1,402	4.7%
Other State Funds	$ 17,533	$ 22,944	$ 23,200	$ 256	1.1%	$ 5,667	32.3%
Federal Funds	$ 10,208	$ 7,846	$ 7,993	$ 147	1.9%	$ (2,215)	-21.7%
Total	**$ 57,561**	**$ 60,399**	**$ 62,415**	**$ 2,016**	**3.3%**	**$ 4,854**	**8.4%**

*General Funds pension contributions of $3.5 billion in FY2010 were paid from the proceeds of pensions bonds and are included for comparability purposes.

**As of March 2013.

Source: Illinois State FY2014 Budget, p. 2-35; Illinois State FY2012 Budget, p. 2-32; State of Illinois General Obligation Bonds, Taxable Series of February 2011, *Official Statement* , February 23, 2011, p. 29.

It is important to note that actual spending from Other State Funds and Federal Funds is often substantially below enacted appropriation levels. In FY2010, for example, actual spending from Other State Funds was $14.5 billion, compared with enacted appropriations of $17.5 billion; actual spending from Federal Funds was $5.5 billion, compared with enacted appropriations of $10.2 billion.[83] Expenditures may not reach the appropriated levels because the State enacts appropriation bills without knowing the level of funding that will be available or because the State must spend the money only for specific purposes and is not able to do so.

[83] Illinois State FY2012 Budget, p. 2-32.

General Funds appropriations increase by $1.6 billion, or 5.5%, to $31.2 billion in the proposed FY2014 budget from $29.6 billion in FY2013. Over the five-year period, General Funds appropriations increase by 4.7% from $29.8 billion in FY2010.[84]

Appropriations for FY2013 are subject to change through the end of the fiscal year due to supplemental appropriations.[85] A bill to increase FY2013 General Funds appropriations by $173 million for the Department on Aging's Community Care Program was approved by the General Assembly in April 2013 and is expected to be signed by Governor Quinn.[86] The Governor is seeking $149.7 million in additional FY2013 General Funds supplemental appropriations for several other agencies, including the Department of Central Management Services, the Department of Corrections and the Department of Human Services (DHS).[87] In addition, a supplemental budget bill has been filed in the House to provide $155.0 million for back wages for union employees and $11.9 million in federal payroll taxes.[88]

The next table highlights three components of proposed General Funds appropriations: agency appropriations, pension contributions and State group insurance. Agency appropriations increase by $439 million, or 1.9%, from FY2013 and decline by $1.4 billion, or 5.4%, from FY2010. Actual agency appropriations spent in FY2010 were significantly below the level of budgeted appropriations because $896 million in spending authority remained unused at the end of the year.[89]

State of Illinois General Funds Appropriations: FY2010-FY2014 (in $ millions)

	FY2010 Enacted*	FY2013 Revised Enacted**	FY2014 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Agency Appropriations	25,208	$ 23,402	$ 23,841	$ 439	1.9%	$ (1,367)	-5.4%
Pension Contributions	3,466	$ 5,107	$ 6,036	$ 929	18.2%	$ 2,570	74.1%
State Group Insurance	1,146	$ 1,100	$ 1,346	$ 246	22.4%	$ 200	17.5%
Total	**29,820**	**29,609**	**31,223**	**$ 1,614**	**5.5%**	**$ 1,403**	**4.7%**

*General Funds pension contributions of $3.5 billion in FY2010 were paid from the proceeds of pensions bonds and are included for comparability purposes.

**As of March 2013.

Source: Civic Federation calculations based on: Illinois State FY2014 Budget, pp. 2-16 to 2-17 and 2-29 to 2-37; Illinois State FY2012 Budget, pp. 2-13 to 2-14 and 2-26.

It should be noted that FY2013 General Funds appropriations included a one-time appropriation of $264 million to the Office of the Comptroller. These funds were used to pay down General

[84] General Funds pension contributions in FY2010 were made from the proceeds of pension bonds, rather than from General Funds. For purposes of comparability, FY2010 pension contributions are treated as appropriations in this discussion.
[85] Supplemental appropriations grant additional spending authority, after the enactment of the initial budget.
[86] Illinois 98th General Assembly, House Bill 207, passed by the House on April 18, 2013 and by the Senate on April 25, 2013; Meredith Colias, "Quinn plans to sign off on funding for home health care," *Illinois Issues blog*, April 25, 2013.
[87] Illinois State FY2014 Budget, p. 2-61.
[88] 98th Illinois General Assembly, House Bill 212, House Amendment 1, filed April 26, 2013. See page 42 of this report for more information on State personnel.
[89] State of Illinois, General Obligation Bonds, Series of March 2012, *Official Statement*, March 13, 2012, p. 9. Appropriations remain unspent because insufficient funding is available or expenses do not reach budgeted levels. For more information on net appropriations spent in FY2013, see page 48 of this report.

Funds bills not related to Medicaid, rather than for the Comptroller's operations.[90] In the proposed FY2014 budget, a total of $312 million is appropriated for the payment of outstanding bills by DHS and the Department on Aging.[91]

Total General Funds appropriations have increased over the last five years mainly due to an increase in statutorily required pension contributions. Illinois' contributions to the five State retirement systems are determined by a law that requires 90% funding by 2045.[92] In FY2010 the State sold bonds to pay for its General Funds pension contributions, rather than paying for them from General Funds.[93] In the table, FY2010 pension contributions are shown as a component of appropriations for purposes of comparability and to provide a better perspective on State expenses. Pension contributions increase by $929 million, or 18.2%, from FY2013 and by $2.6 billion, or 74.1%, from FY2010.

General Funds appropriations for State group insurance increase by $246 million, or 22.4%, from FY2013 and by $200 million, or 17.5%, from FY2010. The enacted FY2013 budget assumed that the State's costs for employee and retiree health insurance would be reduced by $330 million due to the results of collective bargaining.[94] However, the State did not reach a tentative agreement with its largest union until February 28, 2013 on a contract to replace an agreement that expired on June 30, 2012.[95] Savings under the new contract with Council 31 of the American Federation of State, County and Municipal Employees (AFSCME) are not scheduled to begin until FY2014.[96]

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[90] Under Public Acts 97-0685 and 97-0732, the funds were deposited into a newly created FY13 Backlog Payment Fund and then transferred back into General Funds.

[91] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 29.

[92] Public Act 88-0593. For more information about the retirement systems, see page64 of this report.

[93] The sale of pension bonds also paid for General Funds pension contributions in FY2011.

[94] Communication between the Civic Federation and the Governor's Office of Management and Budget, April 19, 2013.

[95] Council 31 AFSCME, "Tentative agreement reached on state contract," February 28, 2013, http://www.afscme31.org/news/tentative-agreement-reached-on-state-contract (last visited on April 27, 2013).

[96] Doug Finke, "AFSCME deal offers raises, but more costly health insurance," *State Journal-Register*, March 1, 2013. For more information about State group health insurance, see page74 of this report.

Appropriations by Agency

The following table shows enacted all funds appropriations for the ten largest State agencies, ranked according to the Governor's proposed FY2014 appropriations.

State of Illinois All Funds Appropriations for Ten Largest Agencies: FY2010-FY2014 (in $ millions)[1]

Agency	FY2010 Enacted	FY2013 Revised Enacted[2]	FY2014 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Healthcare and Family Services	**$ 15,203**	**$ 17,748**	**$ 17,747**	**$ (1)**	**0.0%**	**$ 2,544**	**16.7%**
General Funds	$ 6,733	$ 6,804	$ 7,060	$ 256	3.8%	$ 327	4.9%
Other State Funds	$ 8,270	$ 10,594	$ 10,287	$ (307)	-2.9%	$ 2,017	24.4%
Federal Funds	$ 200	$ 350	$ 400	$ 50	14.3%	$ 200	100.0%
State Board of Education	**$ 11,004**	**$ 9,588**	**$ 9,309**	**$ (279)**	**-2.9%**	**$ (1,695)**	**-15.4%**
General Funds	$ 7,322	$ 6,550	$ 6,241	$ (309)	-4.7%	$ (1,081)	-14.8%
Other State Funds	$ 44	$ 61	$ 61	$ -	0.0%	$ 17	38.6%
Federal Funds	$ 3,637	$ 2,977	$ 3,007	$ 30	1.0%	$ (630)	-17.3%
Human Services	**$ 6,345**	**$ 5,823**	**$ 6,308**	**$ 485**	**8.3%**	**$ (37)**	**-0.6%**
General Funds	$ 3,977	$ 3,267	$ 3,606	$ 339	10.4%	$ (371)	-9.3%
Other State Funds	$ 750	$ 861	$ 972	$ 111	12.9%	$ 222	29.6%
Federal Funds	$ 1,618	$ 1,695	$ 1,730	$ 35	2.1%	$ 112	6.9%
Transportation	**$ 2,512**	**$ 2,689**	**$ 2,713**	**$ 24**	**0.9%**	**$ 201**	**8.0%**
General Funds	$ 78	$ 22	$ -	$ (22)	-100.0%	$ (78)	-100.0%
Other State Funds	$ 2,430	$ 2,661	$ 2,708	$ 47	1.8%	$ 278	11.4%
Federal Funds	$ 4	$ 5	$ 5	$ -	0.0%	$ 1	25.0%
Higher Education[3]	**$ 2,672**	**$ 2,440**	**$ 2,348**	**$ (92)**	**-3.8%**	**$ (324)**	**-12.1%**
General Funds	$ 2,220	$ 1,980	$ 1,900	$ (80)	-4.0%	$ (320)	-14.4%
Other State Funds	$ 71	$ 86	$ 70	$ (16)	-18.6%	$ (1)	-1.4%
Federal Funds	$ 381	$ 374	$ 378	$ 4	1.1%	$ (3)	-0.8%
Commerce and Economic Opportunity	**$ 2,669**	**$ 1,755**	**$ 1,840**	**$ 85**	**4.8%**	**$ (829)**	**-31.1%**
General Funds	$ 52	$ 31	$ 34	$ 3	9.7%	$ (18)	-34.6%
Other State Funds	$ 273	$ 421	$ 437	$ 16	3.8%	$ 164	60.1%
Federal Funds	$ 2,344	$ 1,302	$ 1,369	$ 67	5.1%	$ (975)	-41.6%
Corrections	**$ 1,305**	**$ 1,217**	**$ 1,335**	**$ 118**	**9.7%**	**$ 30**	**2.3%**
General Funds	$ 1,177	$ 1,131	$ 1,243	$ 112	9.9%	$ 66	5.6%
Other State Funds	$ 128	$ 86	$ 92	$ 6	7.0%	$ (36)	-28.1%
Federal Funds	$ -	$ -	$ -	$ -	na	$ -	na
Aging	**$ 745**	**$ 886**	**$ 1,275**	**$ 389**	**43.9%**	**$ 530**	**71.1%**
General Funds	$ 656	$ 785	$ 1,184	$ 399	50.8%	$ 528	80.5%
Other State Funds	$ 8	$ 13	$ 5	$ (8)	-61.5%	$ (3)	-37.5%
Federal Funds	$ 81	$ 88	$ 86	$ (2)	-2.3%	$ 5	6.2%
Lottery[4]	**na**	**$ 1,042**	**$ 1,230**	**$ 188**	**18.0%**	**na**	**na**
General Funds	na	$ -	$ -	$ -	na	na	na
Other State Funds	na	$ 1,042	$ 1,230	$ 188	18.0%	na	na
Federal Funds	na	$ -	$ -	$ -	na	na	na
Children and Family Services	**$ 1,297**	**$ 1,200**	**$ 1,200**	**$ -**	**0.0%**	**$ (97)**	**-7.5%**
General Funds	$ 869	$ 732	$ 716	$ (16)	-2.2%	$ (153)	-17.6%
Other State Funds	$ 421	$ 460	$ 473	$ 13	2.8%	$ 52	12.4%
Federal Funds	$ 8	$ 8	$ 10	$ 2	25.0%	$ 2	25.0%

[1]Does not include appropriations for pension contributions, employee group insurance or debt service.

[2]As of March 2013.

[3]Higher Education includes nine public universities, Board of Higher Education, Community College Board, Student Assistance Commission, Mathematics and Science Academy and State Universities Civil Service System.

[4]The Lottery Department was created in August 2011, after the State agreed to have lottery operations managed by a private firm. The lottery was previously part of the Department of Revenue.

The Department of Healthcare and Family Services (HFS), which runs the State's Medicaid program, is the largest agency, with recommended total appropriations of $17.7 billion in FY2014. It is important to understand, however, that State Medicaid spending is reimbursed by the federal government, generally at a rate of 50%. Appropriations for Medicaid cover both federal and State spending. Total appropriations for HFS are approximately flat from FY2013, with an increase in General Funds appropriations offset by a decrease in Other State Funds appropriations.

Although many of the largest agencies rely on General Funds for most of their funding, several receive their main funding from other sources. The Department of Transportation is primarily supported by Other States Funds including the Road Fund, which is funded by motor fuel taxes and vehicle registrations, licenses and fees. The Department of Commerce and Economic Opportunity is mainly funded by federal grants.

The next table shows enacted General Funds appropriations for the ten largest agency recipients of General Funds.

State of Illinois General Funds Appropriations to 10 Largest Agencies: FY2010-FY2014 (in $ millions)*

Agency	FY2010 Enacted	FY2013 Revised Enacted**	FY2014 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Healthcare and Family Services	$ 6,733	$ 6,804	$ 7,060	$ 256	3.8%	$ 327	4.9%
State Board of Education	$ 7,322	$ 6,550	$ 6,241	$ (309)	-4.7%	$ (1,081)	-14.8%
Human Services	$ 3,977	$ 3,267	$ 3,606	$ 339	10.4%	$ (371)	-9.3%
Higher Education***	$ 2,220	$ 1,980	$ 1,900	$ (80)	-4.0%	$ (320)	-14.4%
Corrections	$ 1,177	$ 1,131	$ 1,243	$ 112	9.9%	$ 66	5.6%
Aging	$ 656	$ 785	$ 1,184	$ 399	50.8%	$ 528	80.5%
Children and Family Services	$ 869	$ 732	$ 716	$ (16)	-2.2%	$ (153)	-17.6%
Supreme Court	$ 306	$ 281	$ 281	$ -	0.0%	$ (25)	-8.2%
State Police	$ 287	$ 248	$ 251	$ 3	1.2%	$ (36)	-12.5%
Secretary of State	$ 260	$ 255	$ 243	$ (12)	-4.7%	$ (17)	-6.5%

*Does not include appropriations for pension contributions or employee group insurance.

**As of March 2013.

***Higher Education includes nine public universities, Board of Higher Education, Community College Board, Student Assistance Commission, Mathematics and Science Academy and State Universities Civil Service System.

Source: Illinois State FY2014 Budget, pp. 2-28 to 2-35; Illinois State FY2012 Budget, pp. 2-24 to 2-32.

The recommended FY2014 budget proposes significant increases in General Funds appropriations for HFS, DHS, Aging and the Department of Corrections. The first three of these agencies have major roles in the Medicaid program and will be discussed later in this report.[97] As previously noted, the General Funds appropriations for both DHS and Aging include funds to pay down outstanding bills: $170 million for DHS and $142 million for Aging.[98]

DHS and the Department of Corrections have sizable staffs and their costs will rise in FY2014 due to salary increases agreed to in the new AFSCME contract.[99] DHS expects full funding of the new contract to increase General Funds costs by $61.5 million in FY2014.[100] The proposed FY2014 General Funds budget for the Department of Corrections includes an increase of $88.3 million for wages and salaries.[101] The Department of Corrections is also seeking a $41.8 million

[97] For more information on the Medicaid program, see page55 of this report

[98] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 29.

[99] For more information on salary costs, see page45 of this report.

[100] Illinois Department of Human Services, *GRF Walk to DHS FY14 Introduced Budget*, March 6, 2013. DHS is requesting 73 additional General Funds full-time equivalent positions in FY2014.

[101] Illinois State FY2014 Budget, p. 6-98. This number includes fringe benefits. The Department of Corrections is requesting 26 additional General Funds full-time equivalent positions in FY2014.

supplemental appropriation for FY2013.[102] According to the agency, the extra funding is needed due to a delay in closing the Tamms and Dwight Correctional Centers that was caused by a legal dispute with Council 31 of AFSCME.

The recommended FY2014 budget also includes a 15.3% increase in General Funds appropriations for the Department of Veterans' Affairs, a relatively small agency. The agency's General Funds appropriations increase to $72.6 million from $63.0 million in FY2013, largely due to the addition of 79 full-time equivalent (FTE) positions.[103] The increase is intended to comply with statutory changes in required staffing ratios.[104]

In contrast to the appropriation increases discussed above, the FY2014 budget proposes significant reductions in education funding. Total General Funds appropriations for both elementary and secondary education and higher education decline by $389 million, or 4.6%, from $8.5 billion in FY2013 to $8.1 billion in FY2014.[105]

Proposed General Funds appropriations for the State Board of Education decline by $309 million, or 4.7%, from $6.6 billion in FY2013 to $6.2 billion in FY2014. General State Aid, the main component of State funding for elementary and secondary education, declines by $150.4 million, or 3.5%, to $4.1 billion.[106] General State Aid payments are based on a Foundation Level of funding, which is established annually by statute and represents the minimum per child financial support that should be available to provide for the basic education of each student.[107] General State Aid is designed to help fill the gap between the Foundation Level and the amount a district can provide from local property tax revenues and other local resources. The Foundation Level has been unchanged since FY2010 at a per pupil amount of $6,119.[108] General State Aid funding for FY2014 represents 82% of the Foundation Level, or $5,452 per pupil.[109]

Proposed General Funds appropriations for higher education decline by $80 million, or 4.0%, from $1.98 billion in FY2013 to $1.90 billion in FY2014. Higher education includes nine public universities, the Board of Higher Education, the Community College Board, the Student Assistance Commission, the Mathematics and Science Academy and the State Universities Civil Service System. This represents a decrease of $32.7 million, or 5.0%, from $662.4 million to $629.7 million, for the University of Illinois, the State's largest university.[110] Decreases range from 4.8% to 5.1% for other State universities.[111]

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[102] Meredith Colias,"Department of Corrections seeks more funds for current fiscal year," *Illinois Issues blog*, April 24, 2013.
[103] State of Illinois, *Fiscal Year 2014 Agency Fact Sheets*, March 6, 2013, p. 56.
[104] Public Act 96-1372. For more information, see Illinois Senate Republicans, *Governor's FY14 Budget Recommendation*, March 6, 2013, p. 35.
[105] These figures do not include pension contributions.
[106] Illinois State Board of Education, *FY2014 Budget Request: Comparison to FY2014 Governor's Budget*, March 7, 2013.
[107] 105 ILCS 5/18-8.05(B).
[108] Illinois State Board of Education, *Fact Sheet: General State Aid*, March 2013.
[109] Illinois Association of School Boards, "Governor Proposes Cut to Education," *Alliance Legislative Report 98-07*, March 6, 2013.
[110] Illinois State FY2014 Budget, p. 2-34.
[111] Illinois Senate Republicans, *Governor's FY14 Budget Recommendation*, March 6, 2013, p. 3.

Appropriations by Purpose

The FY2014 budget groups principal spending activities into result areas, as established by the Governor's Budgeting for Results Commission.[112] The seven result areas are education; economic development; public safety; human services; healthcare; quality of natural, cultural and environmental resources; and government services.[113] Desired outcomes were developed for each result area, and agency programs were matched to these outcomes. The process is intended to allow policymakers to measure each program's contributions to achieving statewide outcomes and thus more rationally allocate State resources.[114]

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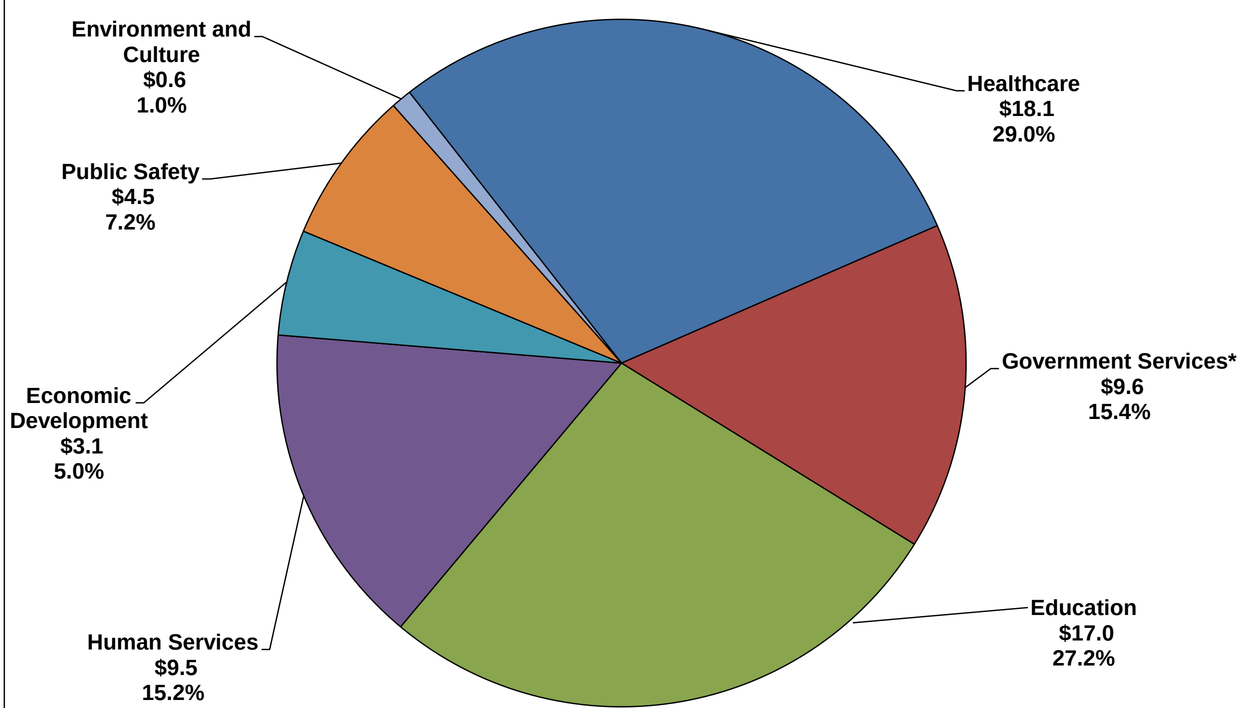
[112] For more information on Budgeting for Results, see Illinois State FY2014 Budget, pp. 2-70 to 2-81 and pp. 5-1 to 5-3.
[113] Illinois State FY2014 Budget, p. 5-1.
[114] Illinois State FY2014 Budget, p. 5-2.

The following chart shows how FY2014 recommended appropriations are allocated across all funds according to result area.

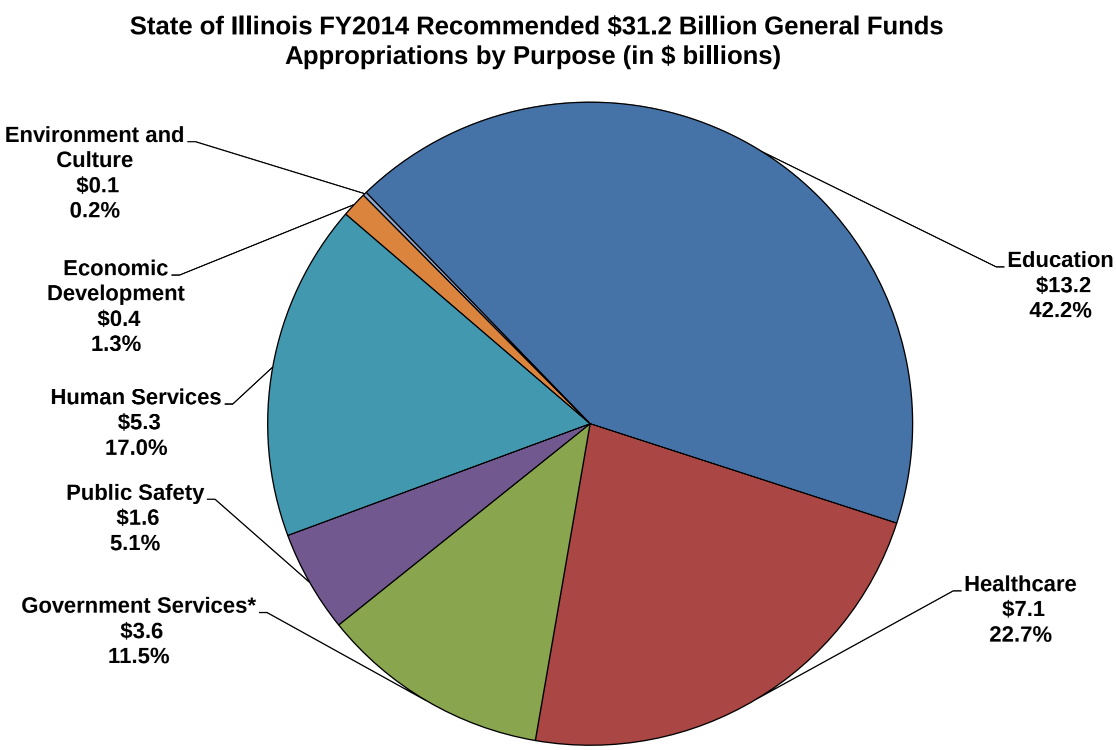
Healthcare accounts for 29.0% of total FY2014 appropriations and includes programs at HFS, DHS, the Department on Aging and several other agencies. Education accounts for 27.2% of total appropriations and includes State pension contributions to the Teachers' Retirement System (TRS) and the State Universities Retirement System (SURS). Government Services represents 15.4% of total FY2014 appropriations and includes State group insurance payments and State pension contributions to the State Employees' Retirement System (SERS), the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS). Human Services accounts for 15.2% of total FY2014 appropriations.

State of Illinois FY2014 Recommended $62.4 Billion All Funds Appropriations by Purpose (in $ billions)



*Includes State group insurance payments.
Source: Civic Federation calculations based on Illinois State FY2014 Budget, p. 2-14.

The next chart shows the allocation of FY2014 recommended General Funds appropriations by result area. When only General Funds are considered, Education has the largest allocation with 42.2%, followed by Healthcare (22.7%), Human Services (17.0%) and Government Services (11.5%). As noted above, Education includes contributions to TRS and SURS and Government Services includes State group insurance payments and contributions to SERS, JRS and GARS.



*Includes State group insurance payments.
Source: Civic Federation calculations based on Illinois State FY2014 Budget, p. 20-14.

Personnel

The FY2014 budget proposes an increase of 914 full-time equivalent positions (FTEs) at the Governor's agencies.[115] That represents a 1.7% increase to 53,172 FTEs at the end of FY2014 from an estimated 52,258 at the end of FY2013.

[115] Illinois State FY2014 Budget, p. 2-18. The budget gives the reduction as 915, but the numbers presented in the budget indicate 914, likely due to a rounding error.

The next table shows personnel numbers for the Governor's agencies by major agency purpose from FY2010 to FY2014.[116] According to the FY2014 budget, headcount has declined from 69,970 in FY2001, mainly due to retirements and attrition without replacements.[117]

State of Illinois Full-Time Equivalent Positions at Governor's Agencies FY2010-FY2014							
Agency Group	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Est.	FY2014 Target	2-Year Change	2-Year % Change
Human Services	21,511	21,682	20,165	20,798	20,990	192	0.9%
Healthcare	2,311	2,241	2,083	2,409	2,466	57	2.4%
Public Safety	22,289	22,580	21,412	21,789	22,118	329	1.5%
Government Services	3,850	3,799	3,545	3,939	4,069	130	3.3%
Environment and Culture	1,454	1,425	1,295	1,356	1,541	185	13.6%
Economic Development	1,220	1,178	1,082	1,119	1,137	18	1.6%
Education*	872	810	788	848	851	3	0.4%
Total	**53,507**	**53,715**	**50,370**	**52,258**	**53,172**	**914**	**1.7%**

*Includes the Illinois State Board of Education, the Illinois Board of Higher Education, the Illinois Community College Board and the Illinois Student Assistance Commission.

Source: Illinois State FY2014 Budget, p. 2-18; Email communication between Civic Federation and Governor's Office of Management and Budget, April 30, 2013.

Due to limited data, staffing information for agencies not controlled by the Governor is not presented in this report. In preparing the budget, the Governor's Office of Management and Budget (GOMB) seeks headcount requests from agencies not under the Governor; if the information is not provided, GOMB keeps headcounts unchanged from the prior year. The budget contains virtually no information about staffing of legislative agencies, including the General Assembly.

The planned increase of 914 FTEs at the Governor's agencies includes 185 at the Department of Natural Resources, 99 at DHS, 90 at the Department of Veterans' Affairs, 90 at the Department of State Police, 75 at the Department of Revenue and 58 at the Department of Corrections.[118] The additional positions at the Department of Natural Resources will mainly be funded from new fees approved in late 2012, including a surcharge on license plate renewals and a new entrance fee for out-of-state visitors.[119]

In the FY2013 budget, Governor Quinn proposed a decrease of 1,453 FTEs, largely as a result of closing correctional facilities, State psychiatric hospitals and State residential centers for the developmentally disabled.[120] It remains unclear, however, what impact if any the layoffs will have on the size of the State workforce. A few of the smaller facilities slated for closure were kept open.[121] In other cases, employees who were laid off were offered the opportunity to fill

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[116]See Appendix A on page 100 for listing of Governor's agencies.
[117] Illinois State FY2014 Budget, p. 2-18.
[118] State of Illinois, *Fiscal Year 2014 Agency Fact Sheets*, March 6, 2013, pp. 24, 27, 34-36, 50, 52-53.
[119] Public Act 97-1136.
[120] Office of Governor Pat Quinn, *Efficiencies Fact Sheet – FY2013 Budget*, February 22, 2012.
[121] Associate Press, "Gov. Pat Quinn 180s on closing Illinois transition centers," *Rockford Register Star*, July 2, 2012.

vacancies elsewhere.[122] At DHS, staffing reductions due to the closure of State facilities are expected to be offset by the hiring of additional caseworkers.[123]

The staffing picture has been complicated by an unexpectedly large number of retirements in FY2012. The retirements have been widely attributed to employees' concerns about possible changes in pension benefits that might affect active workers but not retirees.[124] The State Employees' Retirement System reported 4,360 retirements in FY2012, compared with an average of less than 2,500 a year in the prior four years.[125] Although the FY2013 budget projected 53,017 FTEs at the Governor's agencies at the end of FY2012, the actual number was 50,370.[126] As a result, additional hiring was done in FY2013 to fill vacancies.[127]

A relatively small portion of the State budget—less than 17% of General Funds appropriations—is spent on salaries because many State services and operations are not performed by State employees.[128] The State provides many services through funding for local governments, healthcare providers and social service agencies, rather than having State employees provide those services.

The budget book contains limited information on employee salaries. Itemized data about personal services and fringe benefits are included for many agencies individually, but it is not aggregated in the budget or discussed in the budget summary. Data for the next charts were provided by GOMB. In connection with the FY2014 budget, GOMB made available to the public for the first time a downloadable spreadsheet with detailed information on appropriations and expenditures, including personal services.[129]

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[122] Communication between Civic Federation and Governor's Office of Management and Budget, April 29, 2013.
[123] Illinois Department of Human Services, *All Funds Headcount*, http://www.dhs.state.il.us/page.aspx?item=65127 (last visited on May 1, 2013).
[124] Ray Long, "Pension reform talk sees state worker retirement surge," *Chicago Tribune*, August 13, 2012.
[125] State Employees' Retirement System of Illinois, *Valuation Results as of June 30, 2012*, October 30, 2012, p. 20.
[126] Illinois State FY2013 Budget, p. 2-20; Illinois State FY2014 Budget, p. 2-18.
[127] Communication between Civic Federation and Governor's Office of Management and Budget, April 29, 2013.
[128] See page 64 for information on pensions and page 74 for information on group health insurance.
[129] State of Illinois, Governor's Office of Management and Budget, *Operating Budget Detail*, http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202014/FY2014IllinoisOperatingBudgetDetail.xls (last visited on May 2, 2013).

The next table shows appropriations for employee salaries, including federal payroll taxes, from FY2012 to FY2014 for the Governor's agencies, elected officials and education agencies not under the Governor.[130] Proposed salary appropriations for all funds in FY2014 increase by $136 million, or 2.9%, to $4.8 billion from $4.7 billion in FY2013. The numbers do not include back wages, discussed below, that the State agreed to pay during recently concluded labor negotiations.

State of Illinois All Funds Salary Appropriations: FY2012-FY2014 ($ in millions)*			
Agency Group	**FY2012**	**FY2013**	**FY2014 Rec.**
Governor's Agencies	$ 3,450	$ 3,310	$ 3,501
Elected Officials and Elections**	$ 317	$ 307	$ 299
Education	$ 1,142	$ 1,076	$ 1,029
Total	**$ 4,909**	**$ 4,693**	**$ 4,829**

*Includes federal payroll taxes.

**The FY2013 and FY2014 appropriations for the Treasurer's Office are kept at the FY2012 level because the personal services appropriations were not broken out in the FY2013 and FY2014 budgets.

Source: Civic Federation calculations based on email communication with Governor's Office of Management and Budget, April 30, 2013.

The table does not show legislative agencies because appropriation bills for some legislative agencies, including the General Assembly, do not have separate amounts for personal services. In FY2014 proposed appropriations for all purposes for legislative agencies total $114.8 million.[131] Judicial agencies are not included in the table because the Illinois Supreme Court, the largest judicial agency, received a lump sum appropriation in FY2013 that did not break out personal services. In FY2014 proposed appropriations for personal services for judicial agencies total $253.3 million.[132]

The next table shows General Funds appropriations for salaries from FY2012 to FY2014 for the same groups of agencies. Proposed General Funds salary appropriations increase 3.1%, or $127.3 million, to $4.3 billion in FY2014 from $4.2 billion in FY2013.

State of Illinois General Funds Salary Appropriations: FY2012-FY2014 ($ in millions)*			
Agency Group	**FY2012**	**FY2013**	**FY2014 Rec.**
Governor's Agencies	$ 2,945	$ 2,801	$ 2,985
Elected Officials and Elections**	$ 297	$ 285	$ 276
Education	$ 1,140	$ 1,073	$ 1,026
Total	**$ 4,382**	**$ 4,160**	**$ 4,287**

*Includes federal payroll taxes.

**The FY2013 and FY2014 appropriations for the Treasurer's Office are kept at the FY2012 level because the personal services appropriations were not broken out in the FY2013 and FY2014 budgets.

Source: Civic Federation calculations based on email communication with Governor's Office of Management and Budget, April 30, 2013.

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130 See Appendix B on page 102 for a listing of agencies by branch of government.
131 Illinois State FY2014 Budget, p. 2-27.
132 Civic Federation calculation based on email communication with Governor's Office of Management and Budget, April 30, 2013. This amount includes federal payroll taxes.

Approximately 90% of State employees are covered by collective bargaining agreements.[133] The State has been operating under labor agreements that expired on June 30, 2012 while it negotiated new contracts with its unions. A tentative three-year agreement was reached on February 28, 2013 and ratified on March 20 by members of AFSCME Council 31.[134] However, the union has not signed the contract and plans to put it to another vote due to a continuing dispute relating to back wages.[135]

On July 1, 2011, Governor Quinn cancelled all scheduled FY2012 raises for employees in 14 agencies, citing inadequate appropriations by the General Assembly. AFSCME filed a lawsuit in Cook County Circuit Court, challenging the State's failure to pay the negotiated increase, and the court ruled in the union's favor in December 2012.[136] The State appealed the ruling but subsequently agreed as part of the new contract to drop the appeal and seek a supplemental appropriation to pay the back wages. However, Illinois Attorney General Lisa Madigan, whose office represents the State in the case, has declined to drop the appeal until it is clear that the General Assembly will approve the money for the disputed wages. [137] A bill to provide $155.0 million for back wages owed has been filed but not approved by the legislature.[138]

[133] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 12.
[134] Council 31 AFSCME, "State employees ratify new union contract," March 20, 2013, http://www.afscme31.org/news/state-employees-ratify-new-union-contract (last visited on May 3, 2013).
[135] Council 31 AFSCME, "Re-vote to get underway on state contract," May 1, 2013, http://www.afscme31.org/news/re-vote-to-get-underway-on-state-contract (last visited on May 3, 2013).
[136] Doug Finke, "Judge orders Quinn to honor state employee raises," *State Journal-Register*, December 7, 2012.
[137] Doug Finke, "AFSCME to take another vote on contract," *State Journal-Register*, April 30, 2013.
[138] 98th Illinois General Assembly, House Bill 212, House Amendment 1, filed April 26, 2013. The bill also appropriates $11.9 million in federal payroll taxes related to the back wages.

The next table shows other provisions of the new three-year contract, as summarized by the Department of Central Management Services. The contract itself has not been made available because AFSCME has not signed it. According to the administration's analysis, total wage-related increases of $222 million will be offset by savings of $903 million on group health insurance, resulting in net savings of $681 million. This calculation does not include payment of the back wages.

State of Illinois Budget Impact of AFSCME Contract: FY2013-FY2015 (in $ millions)[1]

	FY2013	FY2014	FY2015	Total
Wage Changes				
COLA[2]	$ -	$ 49	$ 50	$ 99
Step Increases	$ 22	$ 22	$ 22	$ 66
Sub Steps	$ (2)	$ (10)	$ (10)	$ (22)
Pay Parity	$ -	$ 74	$ -	$ 74
Longevity pay increase[3]	$ -	$ 5	$ -	$ 5
Total Wage Changes	**$ 20**	**$ 140**	**$ 62**	**$ 222**
Health Insurance Savings				
Plan Design	$ -	$ (52)	$ (86)	$ (138)
Employee Contributions	$ -	$ (111)	$ (124)	$ (235)
Retiree Contributions	$ -	$ (64)	$ (64)	$ (128)
Maximum Reimbursable Charge[4]	$ -	$ (10)	$ -	$ (10)
Medicare Advantage[5]	$ -	$ (58)	$ (174)	$ (232)
Medicare Coordination	$ -	$ (34)	$ -	$ (34)
SERS Opt Out	$ -	$ (25)	$ (13)	$ (38)
Wellness	$ -	$ -	$ (53)	$ (53)
Insurance Committee Initiatives	$ -	$ -	$ (35)	$ (35)
Total Health Insurance Savings	**$ -**	**$ (354)**	**$ (549)**	**$ (903)**
Net Impact of Contract	**$ 20**	**$ (214)**	**$ (487)**	**$ (681)**

[1]Members of Council 31 of the American Federation of State, County and Municipal Employees approved the contract on March 20, 2013, but the union said on April 30 that it plans to put the contract to another vote due to a dispute over back wages.

[2]The cost of living adjustment is 0% in FY2013, 2% in FY2014 and 2% in FY2015.

[3]The longevity increase is $25.

[4]Change in methodology for computing reimbursement for out-of-network services.

[5]The FY2015 savings for Medicare Advantage includes $58 milliion in FY2016.

Source: Illinois Department of Central Management Services, Submission to General Assembly's Commission on Government Forecasting and Accountability, April 16, 2013.

The major wage-related provisions include 2% cost of living adjustments in FY2014 and FY2015; a "pay parity" adjustment in FY2014 to bring employees up to the wage level they would have reached under the previous contract; and step increases (based on years of experience). The agreement also includes some savings due to lower starting wages for new employees. Health insurance provisions of the contract are discussed later in this report.[139]

[139] For information on group health insurance, see page74 of this report.

General Funds Expenditures

Expenditures from General Funds consist of net appropriations spent and statutory transfers out. General Funds are diverted or transferred out to Other State Funds to make debt service payments on bonds and for a wide range of other legislatively required transfers.

The next table shows General Funds expenditures from FY2010 to FY2014.[140] Proposed expenditures in FY2014 budget total $35.6 billion: net appropriations spent of $30.7 billion and total transfers out of $4.9 billion, including $2.7 billion of legislatively required transfers and $2.2 billion of debt-related transfers. Proposed General Funds expenditures increase by $1.2 billion, or 3.5%, from $34.4 billion in FY2013. Over the last five years, expenditures increase by $2.4 billion, or 7.1%, to $35.6 billion in FY2014 from $33.3 billion in FY2010.

State of Illinois General Funds Expenditures: FY2010-FY2014 (in $ millions)

	FY2010 Actual	FY2011 Actual	FY2012 Prelim.	FY2013 Revised Enacted*	FY2014 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Agency Appropriations	$ 25,208	$ 24,960	$ 24,012	$ 23,437	$ 23,841	$ 404	1.7%	$ (1,367)	-5.4%
Less Unspent Appropriations	$ (896)	$ (350)	$ (374)	$ (300)	$ (500)	$ (200)	66.7%	$ 396	-44.2%
Net Agency Appropriations	$ 24,312	$ 24,610	$ 23,638	$ 23,137	$ 23,341	$ 204	0.9%	$ (971)	-4.0%
Pension Contributions**	$ 3,466	$ 3,680	$ 4,135	$ 5,107	$ 6,036	$ 929	18.2%	$ 2,570	74.1%
State Group Insurance	$ 1,146	$ 885	$ 1,436	$ 1,100	$ 1,346	$ 246	22.4%	$ 200	17.5%
Net Appropriations Spent	**$ 28,924**	**$ 29,175**	**$ 29,209**	**$ 29,344**	**$ 30,723**	**$ 1,379**	**4.7%**	**$ 1,799**	**6.2%**
Statutory Transfers Out									
Legislatively Required Transfers	$ 2,007	$ 2,399	$ 2,473	$ 2,880	$ 2,716	$ (164)	-5.7%	$ 709	35.3%
Debt Service on Pension Obligation Bonds	$ 564	$ 1,667	$ 1,607	$ 1,552	$ 1,655	$ 103	6.6%	$ 1,091	193.4%
Other Debt Service and Statutory Transfers Out***	$ 1,759	$ 739	$ 809	$ 653	$ 527	$ (126)	-19.3%	$ (1,232)	-70.0%
Total Transfers Out	**$ 4,330**	**$ 4,805**	**$ 4,889**	**$ 5,085**	**$ 4,898**	**$ (187)**	**-3.7%**	**$ 568**	**13.1%**
Total Expenditures	**$ 33,254**	**$ 33,980**	**$34,098**	**$34,429**	**$35,621**	**$ 1,192**	**3.5%**	**$ 2,367**	**7.1%**

*As of March 2013.

**Pension contributions in FY2010 and FY2011 were made primarily by issuance of pension obligation bonds, rather than from General Funds.

***FY2010 interest on short term borrowing includes $1.0 billion to repay failure of revenue borrowing in FY2009.

Source: State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement* , April 2, 2013, p.16; State of Illinois, General Obligation Bonds, Series of March 2012, *Official Statement* , March 13, 2012, p. 9; Illinois State FY2014 Budget, p. 2-16 and p. 2-29; Illinois State FY2013 Budget, p. 2-31; Illinois State FY2014 Budget, p. 2-16; Illinois State FY2012 Budget, p. 2-26,

The increase in both periods is mainly caused by pension costs. In the two-year period, pension contributions rise by $929 million, while net agency spending increases by a projected $204 million and group insurance payments rise by a projected $246 million. Between FY2010 and FY2014, a decrease of $971 million in net agency appropriations is more than offset by an increase of $3.7 billion in pension-related costs, including both pension contributions and payments on pension bonds.

Debt service payments on pension bonds are transferred out of General Funds along with debt service payments on other borrowings and legislatively required transfers.[141] In FY2003 the State sold $10 billion in General Obligation pension bonds, of which $7.3 billion was used to reduce the retirement systems' unfunded liability and roughly $2.2 billion was used for statutorily required contributions in FY2003 and FY2004. The State also issued a total of $7.2 billion of pension bonds in FY2010 and FY2011 to pay for required General Funds contributions. Debt

[140] Agency appropriations in this table for FY2013 through FY2014 differ slightly from the numbers in the tables in the Appropriations by Fund section on page 35 of this report. The differences relate to minor inconsistencies between General Funds appropriations as shown on p. 2-16 and p. 2-35 of the Illinois State FY2014 Budget.
[141] For more information on pension bond payments, see the General Obligation Bond section page 8286 of this report.

service on pension bonds increases by $1.1 billion, or 193.4%, to $1.7 billion in FY2014 from $564 million in FY2010.

Additional debt service transfers are made to pay for bonds backing capital projects and to repay borrowing from Other State Funds. Debt service transfers for capital projects are approximately flat at $527 million in FY2014. The FY2013 budget includes $132 million to make the final repayment on interfund borrowing in FY2011.

General Funds are also used for a wide range of legislatively required transfers to Other State Funds—from funding mass transit to supporting the Lincoln Presidential Library in Springfield to promoting thoroughbred racing.

To better monitor the use of State resources, the FY2014 budget proposes that the General Assembly conduct an annual review of all legislatively required transfers that are not already subject to scrutiny during the appropriations process.[142] The FY2014 recommended budget includes for the first time an itemized list of transfers out by fund.[143] The Budgeting for Results Commission has recommended both an annual review of legislative transfers and a detailed listing of transfers in the budget.[144]

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[142] Illinois State FY2014 Budget, pp. 2-2 to 2-3.
[143] Illinois State FY2014 Budget, pp. 2-62 to 2-63.
[144] State of Illinois, Budgeting for Results Commission, *2nd Annual Report*, November 1, 2012, pp. 10-11.

The table below, from the FY2014 budget, shows legislatively required transfers out for FY2011 through FY2013 and the Governor's proposed transfers out for FY2014. Proposed legislatively required General Funds transfers decline by $164 million, or 5.7%, from $2.9 billion in FY2013 to $2.7 billion in FY2014.

State of Illinois Legislatively Required General Funds Transfers Out by Fund: FY2011-FY2014 (in $ millions)				
Fund	**FY2011 Actual**	**FY2012 Actual**	**FY2013 Est.**	**FY2014 Rec.**
Local Government Distributive	$ 1,013	$ 1,095	$ 1,122	$ 1,095
Healthcare Provider Relief	$ 365	$ 160	$ 651	$ 601
Public Transportation	$ 407	$ 438	$ 456	$ 438
Downstate Public Transportation	$ 169	$ 170	$ 193	$ 170
Workers' Compensation Revolving	$ 55	$ 100	$ 100	$ 75
School Infrastruture	$ 68	$ 65	$ 84	$ 64
Tourism Promotion	$ 40	$ 30	$ 46	$ 46
University of Illinois Hospital Services	$ 45	$ 45	$ 45	$ 45
Metropolitan Exposition, Auditorium and Office Building	$ 38	$ 38	$ 38	$ 38
Agricultural Premium	$ 24	$ 24	$ 24	$ 24
Live and Learn	$ 21	$ 21	$ 21	$ 21
Audit Expense	$ 18	$ 18	$ 16	$ 19
Metropolitan Pier and Exposition Authority Incentive	$ -	$ -	$ 15	$ 15
Presidential Library and Museum	$ 7	$ 8	$ -	$ 10
Coal Technology Development Assistance	$ 6	$ 8	$ 8	$ 10
All Others	$ 122	$ 253	$ 61	$ 45
Total	**$ 2,398**	**$ 2,473**	**$ 2,880**	**$ 2,716**

Source: Illinois State FY2014 Budget, pp. 2-62 to 2-63.

In FY2014 the Governor recommends capping transfers for local governments and statewide public transportation at the FY2012 levels. Savings to the State are estimated at $143 million, according to State bond documents.[145] The savings estimate is based on the difference between the proposed FY2014 payment and the projected payment under current law. Statutory changes would be required to enact the proposed caps.

The largest legislatively required transfer out is to the Local Government Distributive Fund, which is estimated to receive 39.0% of all such transfers in FY2013. The Local Government Distributive Fund receives the share of State income tax proceeds that is distributed to local governments. The share had been 10% but was lowered in January 2011 after the State temporarily increased income tax rates so that the State could get the full benefit of the tax increase while preserving local governments' portion prior to the increase. Local governments currently receive 6% of individual income tax revenues and 6.86% of corporate income tax revenues.

The Governor's recommended budget for FY2014 caps income tax payments to local governments at the FY2012 level of $1.095 billion. This is a decrease of $27 million from the

[145] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 29.

amount estimated to be paid in FY2013, and $68 million from the projected payment for FY2014, which was based on the statutory percentages now in effect and the expected growth in total income tax revenues.

Local governments have strongly criticized the proposed reduction in revenue. The Illinois Municipal League estimates that the decrease in funding to local governments in FY2014 would be approximately $148 million, rather than $68 million.[146] The League forecasts a larger loss to local governments because it believes that the Governor's Office has underestimated income tax revenues for FY2014.

The Governor has also proposed capping the Public Transportation and Downstate Public Transportation Funds at the FY2012 level. These funds receive money under various state sales tax acts and distribute it to the Regional Transportation Authority (RTA) and to local mass transit districts outside of the boundaries of the RTA.

The Governor's recommended FY2014 budget transfers $437.8 million to the Public Transportation Fund, down from $456.3 million in FY2013. The Downstate Public Transportation Fund would receive $170.2 million, down from $192.5 million. Transfers to the two funds are based on complex statutory formulas; it is not clear how much might have been paid to the funds in FY2014 before the Governor's proposed freeze.

Significant transfers are also made to the Healthcare Provider Relief Fund, which supports the State's Medicaid program. The FY2014 budget proposes a transfer of $601 million to this fund, down from an estimated $651 million in FY2013. In FY2013 transfers of $500 million were authorized to pay down $1 billion of outstanding Medicaid bills through a cycle of State spending and federal reimbursement.

[146] Illinois Municipal League, "LGDF Threat Update," March 8, 2013, http://legislative.iml.org/page.cfm?key=10051 (last visited on April 30, 2013).

BUDGET DEFICIT AND UNPAID BILLS

The proposed FY2014 budget results in a total General Funds deficit of $4.5 billion and a backlog of unpaid bills of roughly $6.8 billion at the end of the fiscal year. This section reviews the FY2014 budget plan and provides information on other General Funds liabilities.

General Funds Budget Deficit

The total deficit consists of the operating deficit or surplus and the accumulated deficit from prior years. As shown in the following table, the FY2014 budget is approximately balanced, with a surplus of $7 million. This provides minimal reduction of the $4.5 billion accumulated deficit from prior years, resulting in a total deficit of $4.5 billion.

State of Illinois Budget Results and Plans: FY2010-FY2014 (in $ millions)

	FY2010 Actual	FY2011 Actual	FY2012 Prelim.	FY2013 Rev. Enacted[1]	FY2014 Rec.
Operating Resources					
State Revenues	$ 19,287	$ 22,920	$ 28,177	$ 28,707	$ 29,524
Federal Revenues	**$ 5,920**	**$ 5,386**	**$ 3,682**	**$ 4,151**	**$ 4,176**
Total Revenues	$ 25,207	$ 28,306	$ 31,859	$ 32,858	$ 33,700
Transfers In	$ 2,159	$ 1,857	$ 1,763	$ 2,066	$ 1,928
Total Operating Resources	**$ 27,090**	**$ 30,163**	**$ 33,622**	**$ 34,924**	**$ 35,628**
Operating Payments					
Agency Appropriations	$ 25,208	$ 24,960	$ 24,012	$ 23,437	$ 23,841
Less Unspent Appropriations	$ (896)	$ (350)	$ (374)	$ (300)	$ (500)
Net Agency Appropriations Spent	$ 24,312	$ 24,610	$ 23,638	$ 23,137	$ 23,341
Pension Contributions[2]	$ 3,466	$ 3,680	$ 4,135	$ 5,107	$ 6,036
Group Insurance	$ 1,146	$ 885	$ 1,436	$ 1,100	$ 1,346
Total Appropriations	**$ 28,924**	**$ 29,175**	**$ 29,209**	**$ 29,344**	**$ 30,723**
Statutory Transfers Out					
Legislatively Required Transfers[3]	$ 2,007	$ 2,399	$ 2,473	$ 2,880	$ 2,716
Debt Service on Pension Bonds	$ 564	$ 1,667	$ 1,607	$ 1,552	$ 1,655
Other Debt Service and Transfers Out[4]	$ 1,759	$ 739	$ 809	$ 653	$ 527
Total Transfers Out	**$ 4,330**	**$ 4,805**	**$ 4,889**	**$ 5,085**	**$ 4,898**
Total Operating Payments	**$ 33,254**	**$ 33,980**	**$ 34,098**	**$ 34,429**	**$ 35,621**
Operating Surplus (Deficit)	**$ (6,164)**	**$ (3,817)**	**$ (476)**	**$ 495**	**$ 7**
Borrowing for Operations	$3,742	$ 5,404	$ -	$ -	$ -
Operating Surplus (Deficit) After Borrowing	$ (2,422)	$ 1,587	$ (476)	$ 495	$ 7
Accumulated Deficit from Prior Years	$ (3,673)	$ (6,096)	$ (4,510)	$ (4,986)	$ (4,491)
Total Deficit	**$ (6,095)**	**$ (4,509)**	**$ (4,986)**	**$ (4,491)**	**$ (4,484)**

[1]As of March 2013.
[2]Pension contributions in FY2010 and FY2011 were made primarily by issuance of pension obligation bonds.
[3]Includes transfers payable at year end.
[4]Includes interfund borrowing repayment and Budget Stabilization Fund repayment. Interest on short-term borrowing in FY2010 includes $1.0 billion to repay failure of revenue borrowing in FY2009.
Source: State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement* , September 13, 2012, pp. 8-9; State of Illinois, General Obligation Bonds, Series A of April 2013 and Series B of April 2013, *Preliminary Official Statement* , March 12, 2013, pp. 13-14; Illinois State FY2014 Budget, pp. 2-16 to 2-17 and p. 2-29; Illinois State FY2013 Budget, p. 2-13; Illinois State FY2012 Budget, p. 2-26.

These results do not reflect FY2013 supplemental appropriations sought by the Governor's Office totaling $364.9 million: $173 million for the Community Care Program at the Department on Aging, $25 million for DHS and $166.9 million for back wages (and related federal payroll taxes) for union members.[147] If these amounts were enacted and revenues did not change, then the FY2013 operating surplus would be reduced to $130 million and the total deficit would rise to $4.9 billion at the end of FY2013 and FY2014.

Unpaid Bills and Interest Penalties

From FY2009 through FY2011, the State relied on borrowing to help close the operating deficit. The borrowing included the sale of pension bonds to pay for General Funds pension contributions in FY2010 and FY2011. The FY2012 budget, the enacted FY2013 budget and the proposed FY2014 budget do not include borrowing for operations.

Illinois has dealt with its General Funds deficit by delaying payments to vendors, social service agencies, school districts and other units of government and paying those bills from the next year's revenue. In general, Section 25 of the State Finance Act requires that bills incurred in a given year be paid out of that year's appropriation.[148] There is a lapse period, which typically lasts two months, during which next year's revenues may be used to pay this year's bills. This lapse period was extended to six months—through December 31—in FY2010, FY2011 and FY2012 due to the large amount of outstanding bills on June 30. The lapse period for FY2013 will be determined during the FY2014 budget process.

The Section 25 deadline for paying bills does not apply to Medicaid bills, State group health insurance claims and certain other State bills. Exceptions to Section 25 permit these liabilities to be paid from future years' appropriations. This has allowed the State to mask budget deficits by appropriating an insufficient amount to cover Medicaid costs in one year, knowing that remaining bills could be paid in the next year. The ability to defer Medicaid bills in this way was curtailed by legislation enacted in 2012.[149] The new law limited Section 25 liabilities incurred by the State's principal Medicaid agency, the Illinois Department of Healthcare and Family Services, to $700 million in FY2013 and $100 million thereafter, with certain exceptions.[150] Group health insurance liabilities were not limited by the new law.

Another General Funds liability that does not appear in the budget involves the Community Care Program in the Illinois Department on Aging, which is designed to allow seniors to stay out of nursing homes. The Department on Aging is not covered by the Section 25 exception, but in recent years the State's annual appropriation bills have allowed the program's prior year costs to be paid for out of the next year's funding.

In recent years the State has also accumulated unpaid income tax refunds, an additional General Funds liability that is not included in the budget. Unpaid income tax refunds, primarily owed to businesses, peaked at $735 million at the end of FY2010. No approved but unpaid income tax refunds are expected to be on hand at the end of FY2013 or FY2014.

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[147] Illinois 98th General Assembly, House Bill 207, passed by the House on April 18, 2013 and by the Senate on April 25, 2013; 98th Illinois General Assembly, House Bill 212, House Amendment 1, filed April 26, 2013. These bills do not include the $25 million supplemental appropriation for DHS.
[148] 30 ILCS 105/25.
[149] Public Act 97-0691.
[150] The exceptions relate to bills incurred by the end of the fiscal year but not received until after June 30.

The next table shows unpaid bills and other General Funds liabilities from FY2012 to FY2014. The backlog of bills declines by $834 million from an estimated $7.6 billion at the end of FY2013 to $6.8 billion at the end of FY2014.

State of Illinois Unpaid Bills Backlog on June 30: FY2012-FY2014 (in $ millions)*			
	FY2012 Prelim.	**FY2013 Est.**	**FY2014 Rec.**
General Funds Accounts Payable	**$ (5,024)**	**$ (4,531)**	**$ (4,522)**
Other General Funds Liabilities			
HFS Medicaid	$ (2,100)	$ (500)	$ -
Department of Human Services	$ (201)	$ (346)	$ (166)
Department on Aging	$ (178)	$ (318)	$ (173)
Group Health Insurance	$ (1,182)	$ (1,894)	$ (1,894)
Income Tax Refunds	$ (70)	$ -	$ -
Total Other General Funds Liabilities	**$ (3,731)**	**$ (3,058)**	**$ (2,233)**
Total	**$ (8,755)**	**$ (7,589)**	**$ (6,755)**

*Assumes that the Governor's proposed FY2013 supplemental appropriations are not approved, which decreases the General Funds accounts payable but increases other General Funds liabilities.

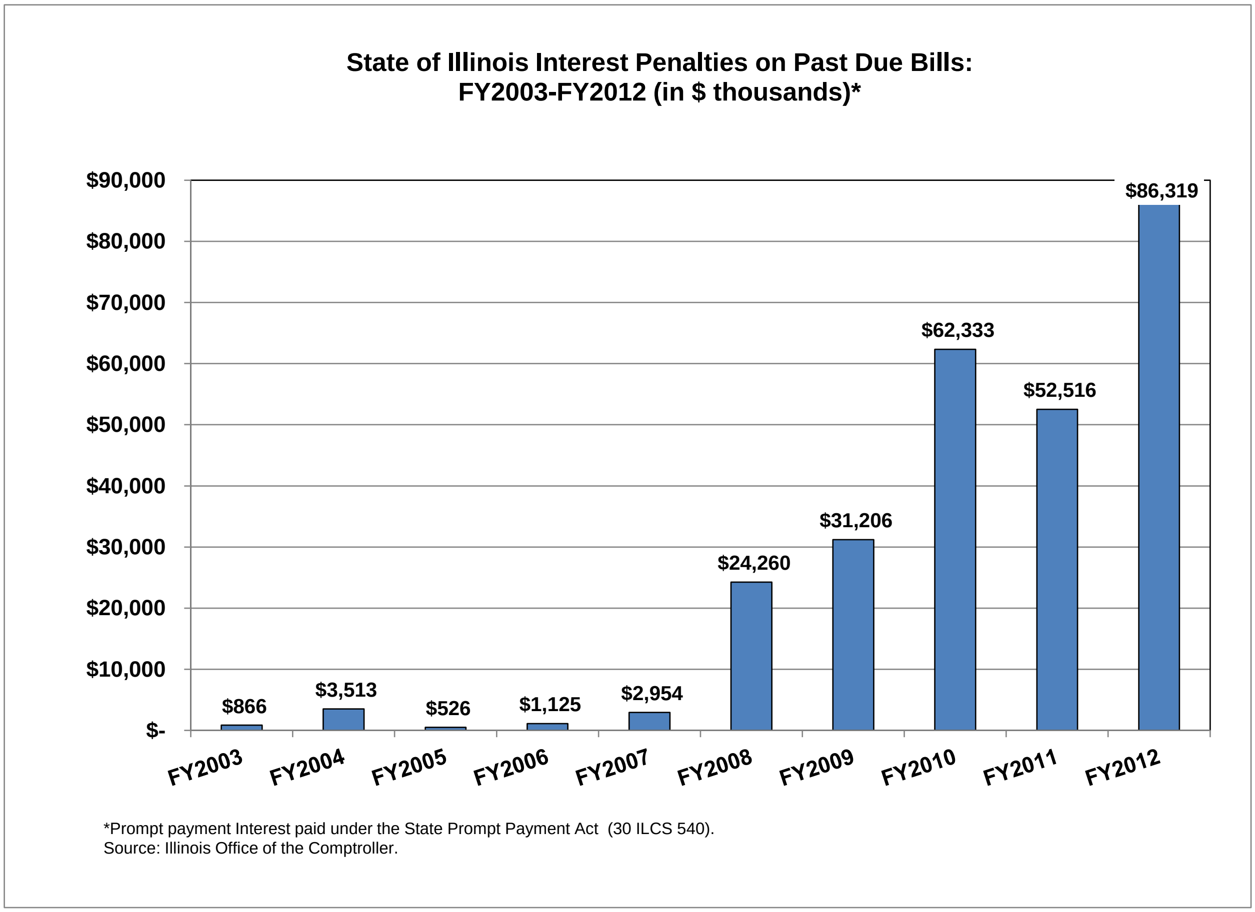
Source: Illinois State FY2014 Budget, pp. 2-16 to 2-17; Communication between Civic Federation and Governor's Office of Management and Budget, April 12, 2013.

The numbers in the table are based on the enacted FY2013 budget without additional supplemental appropriations sought by the Governor. Excluding these supplemental appropriations reduces General Funds accounts payable but increases other General Funds liabilities. The $166.9 million in back wages (and related federal payroll taxes) has not been added to other General Funds liabilities because it remains unclear when the payment must be made.

The State is required under the State Prompt Payment Act to pay interest penalties on past due bills owed to vendors and social service agencies.[151] Interest penalties are not owed on payments to other governments. Interest currently accrues at 1% a month on bills that are not paid within 90 days. Prior to FY2012, interest penalties began after a payment delay of 60 days.[152] Interest penalties are paid when payment is made on the related bills.

[151] 30 IlCS 540.
[152] Public Act 97-0072.

The next chart shows annual interest penalties paid under the State Prompt Payment Act from FY2003 through FY2012. The State paid $265.6 million in prompt payment penalties during this period, including $86.3 million in FY2012. Interest penalties in FY2012 were mainly paid on Medicaid bills and group health insurance bills owed to managed care organizations.



The State also pays interest penalties under a different statute on delayed bills relating to its traditional group insurance plan. Interest is paid at 9% a year after 60 days. The State paid $44.8 million in these penalties on health insurance claims in FY2012.[153]

[153] Illinois Office of the Comptroller, *Expenditure Query Results*, Object: 1994 – Interest Penalty, Expenditures by Fund, Appropriated and Non Appropriated Spending for Fiscal Year 12 (last visited on May 6, 2013).

MEDICAID

Governor Quinn's FY2014 budget recommends increased General Funds appropriations for Medicaid, both to pay down outstanding bills and to expand certain services. The proposed growth follows a budget crisis that led to steep program cuts in FY2013.

This section gives a brief overview of the Medicaid program and reviews the Governor's budget recommendations for FY2014. Medicaid involves several agencies and has no single programmatic appropriation in the State budget. The section focuses on the Department of Healthcare and Family Services, the State's main Medicaid agency, but also includes information about the Department on Aging and the Department of Human Services.

Medicaid Overview

Medicaid is a joint federal-state program that funds medical services for certain categories of low-income people, including children, pregnant women, parents, the elderly and the disabled.[154] The federal government requires states to provide certain services, such as inpatient hospital services and nursing home care. Other services are optional and are provided at the discretion of each state. For example, prescription drug coverage for outpatients is an optional service that all states have chosen to provide.[155]

Beginning in January 2014, the federal Affordable Care Act (ACA) gives states the option of providing Medicaid to the major population group that generally has not been covered: non-elderly, non-disabled adults without dependent children. The ACA extends Medicaid coverage to all adult citizens with annual incomes up to 133% of the federal poverty level (effectively 138%, or $15,415 for an individual in 2013, because 5% of income is disregarded in determining eligibility). The federal government is scheduled to pay 100% of the cost for the newly eligible population for the first three years of the program; 95% in 2017; 94% in 2018; 93% in 2019; and 90% thereafter.

The Medicaid expansion was made optional for states by a U.S. Supreme Court opinion in June 2012.[156] The Supreme Court generally upheld the ACA but ruled that the federal government could not withhold matching funds for states' existing Medicaid programs if they chose not to participate in the ACA expansion.

Under State law, Illinois is banned from expanding eligibility for Medicaid until January 2015.[157] The Illinois moratorium does not apply to Medicaid expansions required as a federal condition of state participation in the Medicaid program. Because participation in the ACA expansion is optional, however, the moratorium must be lifted to allow Illinois to participate in 2014. The Senate in February 2013 approved legislation to allow the Medicaid expansion, but the House has not taken action on the proposal.[158]

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[154] For more information on Medicaid, see the Civic Federation's Institute on Illinois' Fiscal Sustainability, *Illinois Medicaid Program: An Issue Brief*, May 22, 2009, http://www.civicfed.org/iifs/publications/illinois-medicaid-program-issue-brief.

[155] Kaiser Commission on Medicaid and the Uninsured, *Medicaid Payment for Outpatient Prescription Drugs*, September 2011.

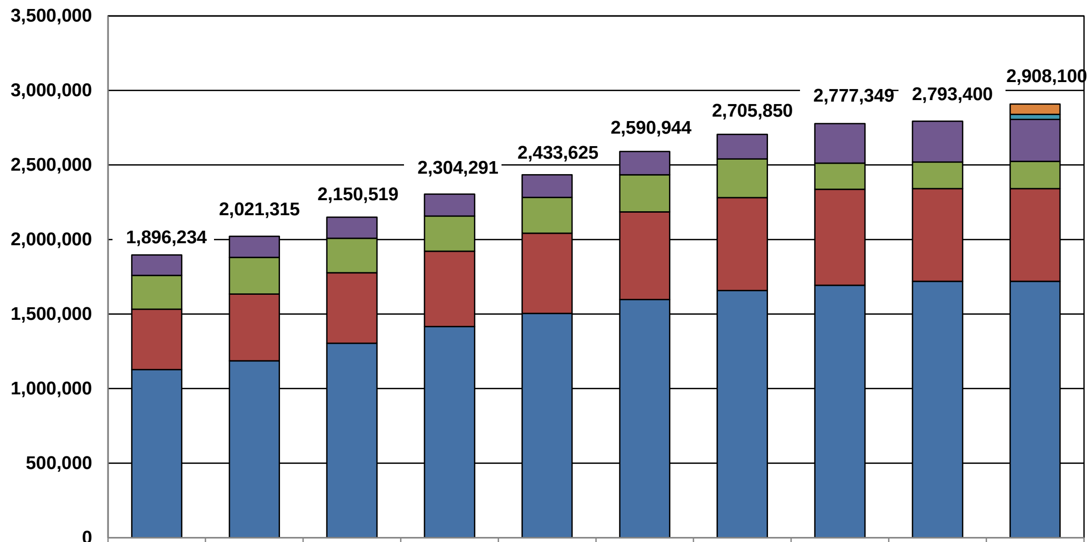
[156] Kaiser Family Foundation, *A Guide to the Supreme Court's Affordable Care Act Decision*, July 2012, pp. 5-6.

[157] Public Act 97-0687.

[158] 98th Illinois General Assembly, Senate Bill 26, passed by Senate on February 28, 2013.

The next chart shows enrollment in the Illinois Medicaid program from FY2005 to FY2014. Enrollment is projected to grow by 53.4% to 2.9 million in FY2014 from 1.9 million in FY2005. The program is expected to add 114,700 recipients in FY2014, including 102,900 as a result of the ACA.

State of Illinois Medicaid Enrollment: FY2005-FY2014*



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 Est.	FY2014 Proj.
Total	1,896,234	2,021,315	2,150,519	2,304,291	2,433,625	2,590,944	2,705,850	2,777,349	2,793,400	2,908,100
ACA newly eligible	0	0	0	0	0	0	0	0	0	69,100
ACA previously eligible	0	0	0	0	0	0	0	0	0	33,800
Seniors	137,270	140,842	142,257	146,314	150,515	156,001	166,138	265,221	273,200	281,400
Disabled Adults	225,738	246,277	231,209	235,965	241,288	249,517	258,354	174,673	178,500	182,100
Non-Disabled Adults	405,383	448,439	473,558	505,979	537,765	588,451	624,085	643,616	622,500	622,500
Children	1,127,843	1,185,757	1,303,495	1,416,033	1,504,057	1,596,975	1,657,273	1,693,839	1,719,200	1,719,200

*Average annual enrollees receiving comprehensive benefits.
Source:Illinois Department of Healthcare and Family Services, Fiscal Year 2014 Budget Overview, March 6, 2013.

Of the total projected ACA-related enrollment in FY2014, 69,100 recipients are expected to be newly eligible and would be able to enroll only if the legislature approves the expansion. The remaining 33,800 are assumed to be previously eligible but not enrolled. They are expected to sign up regardless of whether or not Illinois expands the program because of publicity surrounding the ACA and policies that steer individuals to Medicaid if they are not eligible to obtain insurance coverage through a new ACA-mandated health insurance exchange.[159]

The rapid growth in enrollment in recent years has raised questions about the number of ineligible recipients who might be improperly enrolled in the program. As part of Medicaid reforms enacted in June 2012, HFS was required to hire a private vendor to help improve eligibility screening.[160]

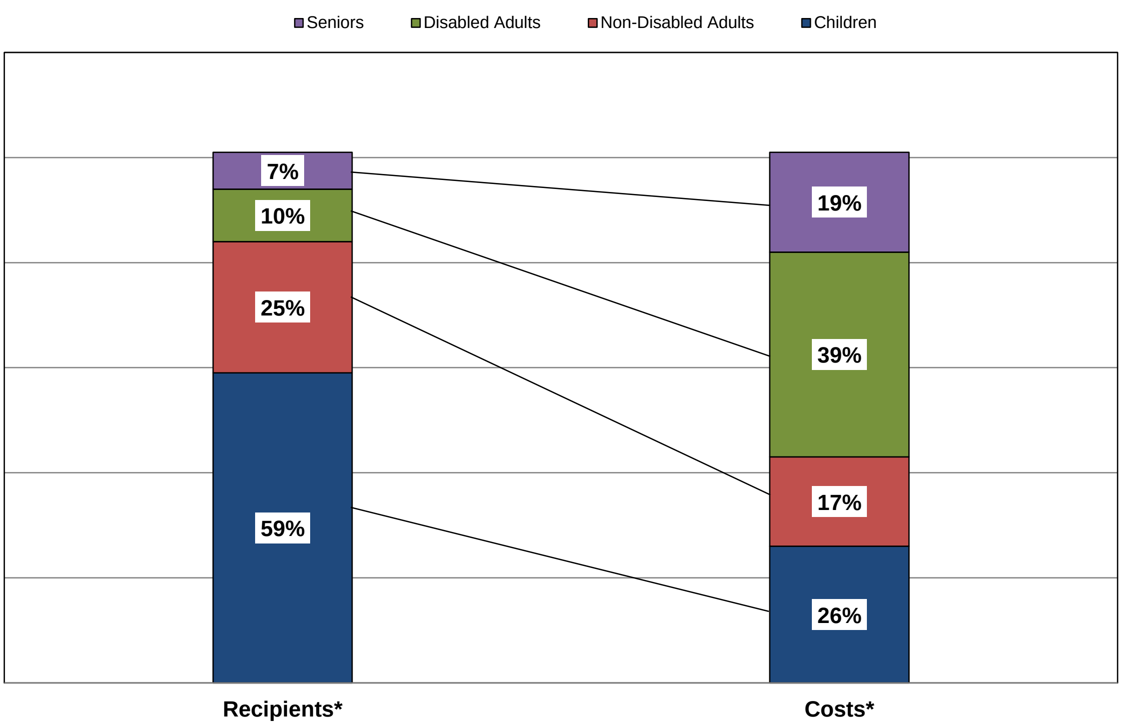
As of April 29, 2013, the State had determined that 20,824 recipients should be removed from the program, which represented more than half of the 39,027 cases processed by that date as part

[159] Kaiser Family Foundation, *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis*, November 2012, p. 29.
[160]Public Act 97-0689.

of the Illinois Medicaid Redetermination Project.[161] However, HFS officials have noted that recipients who are most likely to be ineligible, including those living out of state, are being reviewed first, suggesting that fewer individuals will be found to be improperly enrolled as the work proceeds.[162] In addition, it is not clear to what extent the ineligible recipients have actually been using Medicaid services.

Children and adults without disabilities have been the fastest growing segments of Illinois' Medicaid enrollment but are the least costly to serve. As in other states, adults with disabilities and seniors are by far the most expensive recipients of Medicaid services. The following chart shows that adults with disabilities and seniors represented 17% of Illinois' Medicaid enrollment but 58% of program costs in FY2011.

State of Illinois Medicaid Program Distribution of Enrollment and Costs: FY2011



*Totals do not add to 100% due to rounding.
Source: Illinois Department of Healthcare and Family Services, *Challenges & Opportunities for Illinois Medicaid: Presentation of the Civic Federation,* March 22, 2013, p. 4.

The State is attempting to control costs for disabled and elderly recipients by reducing reliance on expensive institutional care and increasing the use of managed care. The effort to move elderly and disabled residents from institutions to community settings and keep them out of nursing homes—known as rebalancing—is discussed in connection with the Department on Aging and the Department of Human Services.

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[161]Illinois Department of Healthcare and Family Services, *Illinois Medicaid Redetermination Project Year to Date Summary Report*, April 29, 2013, http://www2.illinois.gov/hfs/SiteCollectionDocuments/IMRPReport.pdf (last visited on May 4, 2013).
[162]Illinois Department of Healthcare and Family Services, *MAC Access Subcommittee Meeting Minutes*, January 15, 2013, http://www2.illinois.gov/hfs/SiteCollectionDocuments/021513MACAccess_minutes.pdf (last visited on May 4, 2013).

Managed care, which is also called coordinated care, is designed to lower costs by rewarding healthcare providers for keeping people healthy, rather than tying payment to the volume of services provided. A Medicaid reform law enacted in 2011 requires that half of Medicaid recipients be enrolled in coordinated care by January 1, 2015.[163] HFS has issued a schedule that calls for approximately 2 million recipients, or two-thirds of total enrollees, to be covered by care coordination by the 2015 deadline.[164] Currently 269,602 Medicaid recipients, less than 10% of the total, are enrolled in Health Maintenance Organization-style managed care.[165] Most of these recipients joined HMOs voluntarily.

The State's first experiment with mandatory HMO-style managed care for Medicaid began in May 2011 and currently covers approximately 35,000 elderly and disabled recipients in Northeastern Illinois, excluding Chicago, who are not also eligible for Medicare. A recent independent evaluation found that the pilot program reduced emergency room use and hospital admissions but also resulted in lower patient satisfaction.[166] The program is currently being expanded to cover more regions and services.

Medicaid Appropriations and Costs

The Medicaid program in Illinois is administered primarily by HFS, which accounts for most of its spending. The Medical Assistance program at HFS is often used as the best available approximation to the Medicaid program.[167]

Medicaid funding is complex. State Medicaid expenditures are reimbursed by the federal government at a rate known as the Federal Medical Assistance Percentage (FMAP). The FMAP for Illinois rose to 61.88% as a result of the American Recovery and Reinvestment Act of 2009 (ARRA), but the reimbursement rate has generally been 50% since stimulus funding ended on June 30, 2011.

General Funds appropriations in the State budget are gross amounts, meaning they represent total authorized spending funded by both the State and federal governments. In simple terms, a $1 appropriation for Medicaid represents 50 cents in State-funded spending and 50 cents in federally-funded spending.

In addition to General Funds, the Medicaid program receives funding from a number of other sources, including rebates paid by prescription drug manufacturers, proceeds from the settlement of tobacco-related litigation, tobacco taxes and payments by local governments and healthcare

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[163] Public Act 96-1501.

[164] Illinois Department of Healthcare and Family Services, *Care Coordination Roll-Out Plan, January 2013-January 2015*, November 29, 2012.

[165] Illinois Department of Healthcare and Family Services, *Managed Care Enrollment*, http://www2.illinois.gov/hfs/ManagedCare/Pages/Enrollment.aspx (last visited on May 4, 2013).

[166] Tamar Heller et al., *An Independent Evaluation of the Integrated Care Program: Results from the First Year*, February 2013, Executive Summary, http://www2.illinois.gov/hfs/SiteCollectionDocuments/UICExecutiveSummaryICP.pdf (last visited on May 4, 2013).

[167] Roughly $2 billion a year in expenditures are made by other agencies, including the Departments of Human Services and Children and Family Services and the Department on Aging. Although the HFS Medical Assistance program is the best available approximation to the Medicaid program, roughly 10% of its appropriations are outside of the Medicaid program.

providers that are structured to enhance federal reimbursements. These Other State Funds outside the General Funds are relatively stable funding sources.

The next table shows actual and estimated spending by the HFS Medical Assistance program in FY2010 through FY2013, as well as enacted appropriations for FY2013 and proposed appropriations for FY2014. Total appropriations remain approximately flat from FY2013 to FY2014, with an increase in General Funds appropriations offsetting a decline in Other State Funds appropriations.

HFS Medical Assistance Program Expenditures and Appropriations: FY2010-FY2014 (in $ millions)						
	FY2010 Exp.	FY2011 Exp.	FY2012 Exp.	FY2013 Enacted*	FY2013 Est. Exp.	FY2014 Rec.*
General Funds	$ 5,971.6	$ 6,313.2	$ 6,627.4	$ 6,640.0	$ 6,313.1	$ 6,908.8
Other State Funds	$ 7,035.8	$ 6,964.3	$ 5,772.7	$ 10,563.1	$ 8,586.5	10,277.20
Total	$ 13,007.4	$ 13,277.5	$ 12,400.1	$ 17,203.1	$ 14,899.6	$ 17,186.0

*Enacted appropriations for FY2013 and proposed appropriations for FY2014.

Source: Illinois Department of Healthcare and Family Services, *HFS Program Area Appropriations Comparison* , March 6, 2013, p. 2; Communications between Civic Federation and Governor's Office of Management and Budget, August 7, 2012 and April 26, 2013.

General Funds appropriations for managed care increase to $1.1 billion in FY2014 from $242.2 million in FY2013, reflecting HFS' plan to enroll an increasing number of recipients in managed care plans.[168] Increased payments to managed care organizations are offset by decreased funding for other healthcare providers, who will get paid by the managed care groups.

General Funds spending by the Medicaid Assistance Program is usually close to the appropriated amount. In FY2013 General Funds expenditures are estimated to be $326.9 million below enacted appropriations because the federal government reduced reimbursements rather than waiting to be paid Medicare premiums owed by the State.[169]

As in other areas of the State budget, appropriations for Other State Funds typically overstate available resources. The enacted Medical Assistance budget for FY2013 includes Other State Funds appropriations of $10.6 billion, but spending from Other State Funds is estimated at $8.6 billion.

Total spending by the Medical Assistance program in FY2013 is estimated at $14.9 billion. This includes approximately $3.7 billion related to special funding agreements such as the hospital assessment program that cannot be used for other purposes.[170] On a comparable basis, total spending in FY2014 is projected at $14.6 billion, with $4.2 billion related to special funding arrangements.[171]

However, annual expenditures have not reflected the annual costs of the program due to a provision of State law that has allowed Medicaid costs to be deferred to future years. In general, Section 25 requires that bills incurred in a given year be paid out of that year's appropriation.

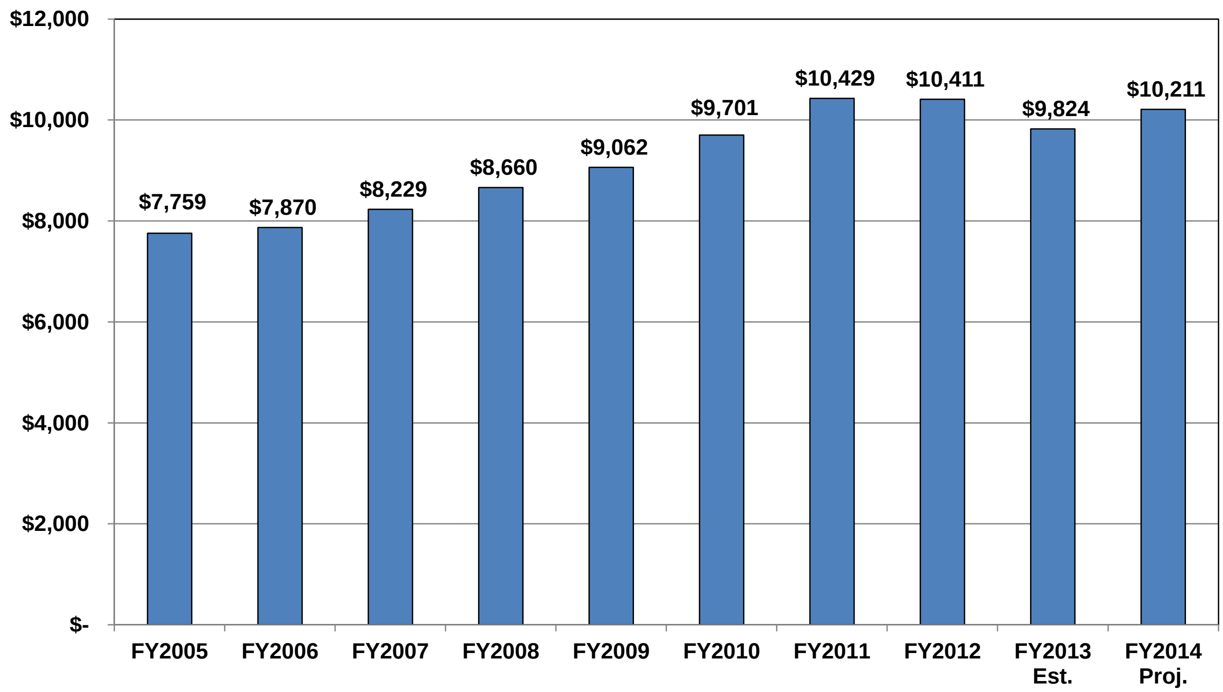
[168] Illinois State FY2014 Budget, p. 6-141.
[169] Communication between the Civic Federation and the Governor's Office of Management and Budget, May 2, 2013. The federal government also deducted matching revenues to account for Medicare premiums in FY2012.
[170] Illinois State FY2013 Budget, pp. 2-68 to 2-79.
[171] Illinois Department of Healthcare and Family Services, *FY14 Cashflow*, March 5, 2013; Illinois State FY2014 Budget, pp. 2-70 to 2-81.

There is a lapse period, which typically lasts two months, during which next year's revenues may be used to pay this year's bills.[172] However, what is known as the Section 25 exception permits the State to pay Medicaid bills out of future years' appropriations.[173] This exception has allowed the State to appropriate inadequate amounts for Medicaid in order to help balance the budget. In the meantime, Medicaid bills pile up outside the budget.

Bills accumulate because simply reducing Medicaid appropriations will not reduce Medicaid costs. Medicaid is an entitlement program under which certain categories of low-income people who meet eligibility requirements are entitled to specified medical services. Medicaid costs cannot be cut without reductions in program eligibility, benefits or reimbursement rates paid to healthcare providers such as hospitals, nursing homes and pharmacies.

Because of the ability to shift costs from one year to the next, annual liability—rather than expenditures—provides the best measure of the program's cost trends. The next table shows the HFS Medical Assistance Program liability from FY2005 through FY2014. This table does not include special funding arrangements such as the hospital assessment program. Annual liability is expected to increase by $387 million, or 3.9%, to $10.2 billion in FY2014 from $9.8 billion in FY2013.

HFS Medical Assistance Program Liability: FY2005-FY2014 (in $ millions)*



*Liability includes General Funds and related funds only.
Source: Illinois Department of Healthcare and Family Services, *FY13 Cashflow and FY14 Cashflow*, March 5, 2013; Illinois Department of Healthcare and Family Services, *FY12 Budget Update: FY12 Medicaid Costs Less Than Expected*; Email communication between Civic Federation and Illinois Department of Healthcare and Family Services, April 13, 2012.

[172] The lapse periods for FY2010, FY2011 and FY2012 were extended to six months due to the large amount of outstanding bills at the end of the fiscal year.
[173] 30 ILCS 105/25 (b-4). Use of this Section 25 exception is significantly reduced under Public Act 97-3397, as discussed below.

Excluding annual costs associated with the ACA, the liability is projected to increase by 2.2% in FY2014.[174] The expected ACA liability consists of $56 million for spending on previously eligible but not enrolled, which will be reimbursed by the federal government at the regular rate of 50%.[175] The remaining $115 million of the ACA liability, for newly eligible recipients, will be fully reimbursed by the federal government.

The liability is expected to decline substantially in FY2013 due to a restructuring program designed to close a funding gap of $2.7 billion. The funding crisis was triggered by an underappropriation of $1.5 billion in FY2012.[176] A package of legislation enacted in June 2012 authorized $1.6 billion in program reductions and reimbursement rate cuts to healthcare providers and $1.1 billion in additional revenue, including a $1-a-pack increase in the State cigarette tax.[177] HFS has stated that savings in FY2013 are expected to be approximately $494.5 million short of the target but that the shortfall will be largely offset by $395 million in savings in FY2012.[178]

In addition to the measures above, the General Assembly also authorized a $500 million transfer out of General Funds to the Healthcare Provider Relief Fund in FY2013 to pay down part of the accumulated backlog of Medicaid bills.[179] When matched with federal reimbursements, this will supply approximately $1.0 billion to spend on Medicaid bills and reduce the backlog at the end of FY2013 to an estimated $500.0 million.[180]

The legislation enacted in 2012 significantly curtails the State's ability to defer HFS Medicaid bills beginning at the end of FY2013.[181] The new law limits these deferred liabilities to $700 million in FY2013 and $100 million thereafter, with certain exceptions.[182] HFS expects to be able to meet these standards.[183]

Department on Aging

The Community Care Program at the Department on Aging is designed to help seniors stay out of nursing homes by providing in-home services such as cleaning and meal preparation and

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[174] Illinois Department of Healthcare and Family Services, *Fiscal Year FY2014 Budget Overview*, March 6, 2013, p. 12.

[175] Illinois Department of Healthcare and Family Services, *Fiscal Year FY2014 Budget Overview*, March 6, 2013, p. 21.

[176] For more information on the Medicaid funding crisis and the restructuring plan, see The Civic Federation's Institute for Illinois' Fiscal Sustainability, *State of Illinois Enacted Budget FY2013: A Review of the Operating Budget for the Current Fiscal Year*, October 8, 2012, pp. 32-36. http://www.civicfed.org/StateofIllinoisEnactedBudgetFY2013 and State of Illinois FY2014 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly, February 25, 2013, pp. 27-29, http://www.civicfed.org/iifs/publications/IllinoisRoadmapFY2014.

[177] The main laws are Public Acts 97-0689, 97-0688 and 97-0691.

[178] Illinois Department of Healthcare and Family Services, *SMART Act Implementation Status Report*, Senate Appropriations Committee hearing, March 19, 2013; Illinois Department of Healthcare and Family Services, *FY12 Budget Update: FY12 Medicaid Costs Less Than Expected*.

[179] Public Act 97-0732.

[180] Illinois Department of Healthcare and Family Services. *FY13 Cashflow*, March 5, 2013.

[181] Public Act 97-0691.

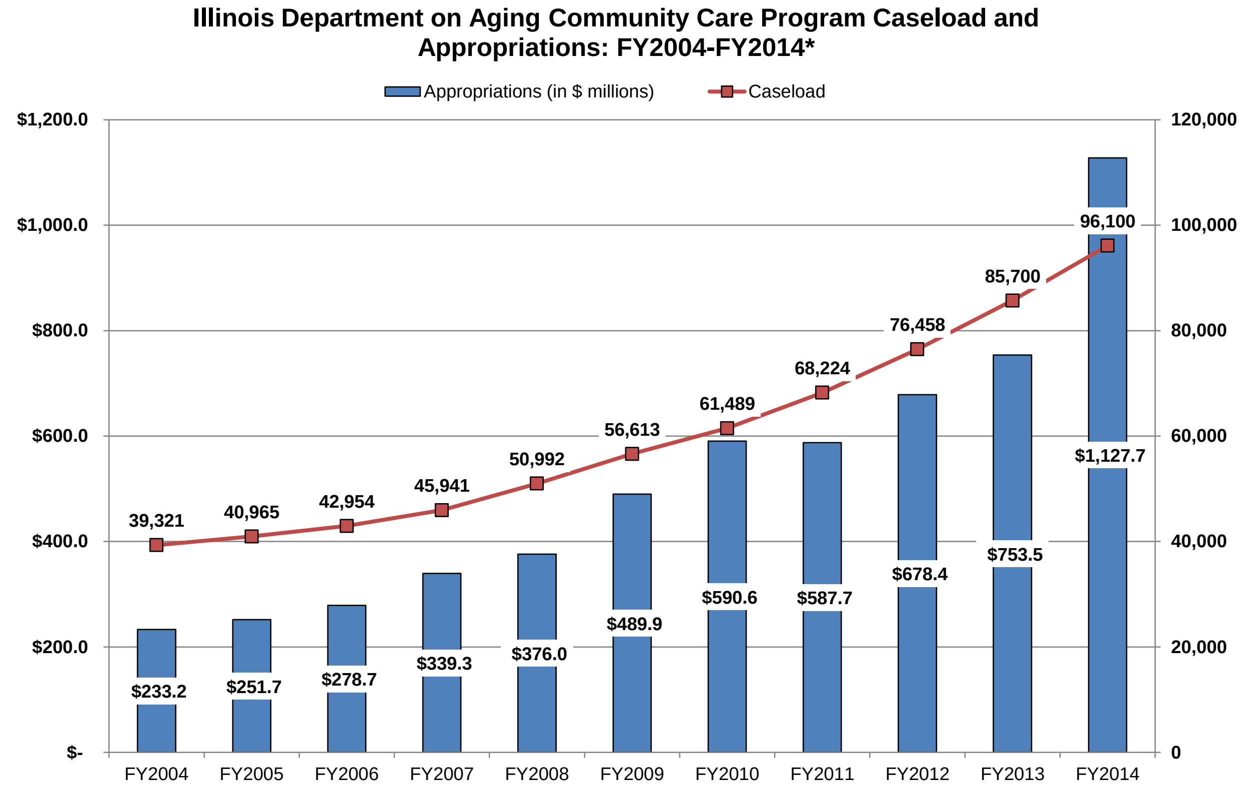
[182] The limit does not apply to bills not received by the end of the fiscal year for services provided during the fiscal year. Bills must be submitted within six months of the date of service.

[183] Illinois Department of Healthcare and Family Services. *FY13 Cashflow and FY14 Cashflow*, March 5, 2013.

community-based care. Community services cost about one-third as much as nursing home care, and approximately 70% of the program's clients are eligible for Medicaid.[184]

The FY2014 budget proposes General Funds appropriations for the program of $1.1 billion, up $374.1 million, or 49.7%, from $753.5 million in FY2013. The program's monthly caseload is expected to increase to by 12.1% in FY2014 to 96,100 from 85,700 in FY2013.[185]

The following chart shows the growth in the program's caseload and appropriations from FY2004 to FY2014.



*Appropriations for FY2004-FY2010 are actual expenditures; FY2011 adjusted appropriation; FY2012 appropriation and FY2013 enacted appropriation. The FY2014 appropriation includes $142 million to cover year prior year costs
Source: Illinois Department on Aging, *Fiscal Year 2014 Introduced Budget - Aging Network Briefing, March 7, 2013*, p 19.

The increased FY2014 funding will be used partly to pay down $142.0 million in outstanding bills from the prior year. The program was underfunded by $100 million in FY2011, $73 million in FY2012 and is projected to be underfunded by $140 million in FY2013.[186]

The underfunding in FY2013 relates partly to savings that were not achieved in the Medicaid restructuring described above. The State proposed to raise the required level of care needed by

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[184] Testimony by Department on Aging at Senate Appropriations I Committee hearing, April 23, 2013.
[185] Illinois Department on Aging, *Fiscal Year 2014 Introduced Budget – Aging Network Briefing*, March 7, 2013, p. 19.
[186] Communication between the Civic Federation and the Governor's Office of Management and Budget, December 18, 2012.

seniors in order to qualify for both institutional and community-based services. This change, however, was not approved by the federal government.[187]

Legislation to increase FY2013 General Funds appropriations for the program by $173 million was approved by the General Assembly in April 2013 and is expected to be signed by Governor Quinn. [188] Even with the increasing funding, the agency is expected to end FY2013 with more than $140 million in outstanding bills.

The Department on Aging is not covered by the Section 25 exception, but in recent years the State's annual appropriation bills have allowed the program's prior year costs to be paid out of the next year's funding. The agency's appropriation bill for FY2013, for example, states that amounts appropriated for the Community Care Program cover prior year costs.[189] Like the Section 25 exception, this language allows the State to budget expenditures in a given year that are below expected costs in order to help balance the budget. Meanwhile, bills pile up outside the budget.

Legislation to reduce the growth in the program's costs was passed by the General Assembly on the same day as the supplemental appropriation for FY2013.[190] Among other changes, the legislation requires the Department on Aging to step up efforts to enroll program participants in Medicaid. It also requires the agency to apply for participation in the federal Balancing Incentive Program, which provides a higher federal reimbursement rate for states that make structural reforms to increase nursing home diversions and access to community care.[191]

Department of Human Services

The Department of Human Services (DHS) provides services for Medicaid recipients who have developmental and physical disabilities and mental health problems and plays a key role in efforts to reduce reliance on institutional care.

The State is moving to close State-run institutions for the developmentally disabled and relocate residents to community settings. Jacksonville Developmental Center in Jacksonville was closed in November 2012 and the State is in the process of closing Murray Developmental Center in Centralia. According to State officials, it cost an average of $200,000 a year for a resident to live at Jacksonville, compared with an average of $84,000 in a smaller community setting. [192] The Jacksonville closure is expected to save $25.5 million in FY2014, but the savings will be offset by costs relating to moving residents and staff to other facilities.[193]

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[187] Illinois Department of Healthcare and Family Services, *SMART Act Implementation Status Report*, Senate Appropriations Committee hearing, March 19, 2013, p. 6.

[188] Illinois 98th General Assembly, House Bill 207, passed by the House on April 18, 2013 and by the Senate on April 25, 2013; Meredith Colias, "Quinn plans to sign off on funding for home health care," *Illinois Issues blog*, April 25, 2013.

[189] Public Act 97-0730.

[190] 98th Illinois General Assembly, House Bill 2275, passed by the House on April 18, 2013 and by the Senate on April 25, 2013.

[191] Medicaid.gov, Balancing Incentive Program, http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Long-Term-Services-and-Support/Balancing/Balancing-Incentive-Program.html (last visited on May 4, 2013).

[192] State of Illinois, "Governor Quinn Announces Successful Community Transition for Jacksonville Developmental Center Residents*," news release*, November 29, 2012.

[193] Illinois Department of Human Services, *GRF Walk to DHS FY14 Introduced Budget*, http://www.dhs.state.il.us/page.aspx?item=65100 (last visited on May 5, 2013).

In addition to the fiscal impact, the shift to community care supports the U.S. Supreme Court's 1999 opinion in the *Olmstead* case. In that case, the court ruled that the federal Americans with Disabilities Act requires states to provide services in the most integrated setting appropriate to the needs of individuals, consistent with individuals' wishes and the resources available to the state.[194]

The closures of the Jacksonville and Murray centers are part of a long-term agenda announced by Governor Quinn in November 2011.[195] The agenda calls for the closure of up to four of the State's eight developmental centers, reducing the number of residents by at least 600 by the end of FY2014. This initiative is in line with Illinois' Medicaid reform legislation enacted in 2011, which calls for shifting more residents of long-term care facilities to community settings. [196] A five-year strategic plan issued by the Illinois Department of Human Services (DHS) in 2010 recommended that the State accelerate its relocation of developmental center residents into less restrictive settings to meet national benchmarks by 2017.[197]

The decision to close centers for the developmentally disabled has been opposed by labor unions, some parents of residents and certain legislators.[198] On February 19, 2013, a group of parents of residents of the Murray Center filed a federal lawsuit to prevent or delay the center's closing.[199]

The State is also implementing consent decrees relating to three federal lawsuits challenging its provision of services to the disabled. The lawsuits were filed in 2005 and 2007 by institutionalized individuals who sought placement in community settings. DHS is overseeing plans to move individuals with developmental disabilities and mental health problems to community settings.[200] A plan to move residents out of Cook County nursing homes is being implemented by HFS.[201]

STATE RETIREMENT SYSTEMS

The proposed FY2014 budget includes statutorily required General Funds pension contributions of $6.0 billion and debt service on pension bonds of $1.7 billion. These combined pension-related costs of $7.7 billion represent 24.5% of projected FY2014 State-source General Funds revenues of $31.5 billion.

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194 U.S. Department of Justice, *Olmstead: Community Integration for Everyone* http://www.ada.gov/olmstead/index.htm (last visited on May 5, 2013).

195 State of Illinois, *Governor Quinn's Rebalancing Initiative*, November 2011.

196 Public Act 96-1501 .

197 Illinois Department of Human Services, Division of Developmental Disabilities, *Strategic Plan for 2011-2017*, July 2010, p. 7.

198 Chris Wetterich, "AFSCME challenges transfers from JDC," *State Journal-Register*, July 28, 2012.

199 Brian Brueggemann, "Murray Center parents file federal suit to prevent closure," *Belleville News Democrat*, February 20, 2013.

200 Illinois Department of Human Services, *Ligas Lawsuit*, http://www.dhs.state.il.us/page.aspx?item=40989 (last visited on May 5, 2013); Illinois Department of Human Services, *Williams Consent Decree Implementation Plan*, http://www.dhs.state.il.us/page.aspx?item=56446 (last visited on May 5, 2013).

201 Illinois Department of Healthcare and Family Services, *Fact Sheet: The Colbert v. Quinn Consent Decree*, http://www2.illinois.gov/hfs/PublicInvolvement/Colbert%20v%20Quinn/Pages/HFS3345.aspx (last visited on May 5, 2013).

This section provides a brief overview of the State's five retirement systems, a discussion of pension costs in FY2014 and subsequent years and a summary of major proposals for pension reform.

State Retirement Systems Overview

The State of Illinois funds five State retirement systems: the Teachers' Retirement System (TRS), the State Universities Retirement System (SURS), the State Employees' Retirement System (SERS), the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS). Employees also contribute to the systems, with contributions ranging from 4% to 12.5% of salary depending on the plan and whether the member is also covered by Social Security. As of June 30, 2012, there were a total of 760,955 participants in the systems.[202]

State of Illinois Retirement Systems: Enrollment and Member Contribution Rates as of June 30, 2012

Pension Fund	Members	Annuitants	Total	Member Contribution*
Teachers	287,653	105,499	393,152	9.4%
Universities	162,497	54,532	217,029	8.0%-9.5%**
State Employees	85,278	62,788	148,066	4.0%-12.5%***
Judges	983	1056	2,039	11.0%
General Assembly	255	414	669	11.5%
Total	**536,666**	**224,289**	**760,955**	

*Percentage of salary a member is required to contribute under the Illinois Pension Code.

**Most members contribute 8.0%. Police officers and firefighters contribute 9.5%.

***Members covered by Social Security contribute 4% if ineligible for an alternative benefits formula and 8.5% if eligible. Members not covered by Social Security contribute 8% if ineligible for an alternative benefits formula and 12.5% if eligible.

Source: State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement* , April 2, 2013, p. 57.

TRS, the State's largest retirement system, covers public school teachers outside of Chicago. Although it receives employer contributions from local school districts, special districts and other State agencies, approximately 95% of its funding comes from the State.[203] SURS covers employees of State universities, community colleges and related agencies and receives employer contributions from community college districts and other State agencies. SERS covers most State employees not eligible for another plan. JRS covers judges, and GARS covers members of the legislature, constitutional officers and clerks of the House and Senate.

One measure of the financial health of a retirement system is the funded ratio, which shows the percentage of the actuarial accrued liability that is covered by the system's assets. The actuarial accrued liability is an estimate of the present value of the benefits owed to current and retired employees. The unfunded liability represents the amount by which the system's liability exceeds its assets.

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[202] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 57.

[203] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, p. 55.

As shown in the table below, Illinois' retirement systems had a total unfunded liability of $96.8 billion and a combined funded ratio of 39.0% as of June 30, 2012.[204] These numbers are based on the market value of assets, which recognizes gains and losses on investments as they occur.

State of Illinois Retirement Systems Unfunded Liability and Funded Ratios: June 30, 2012 Assets at Market Value (in $ millions)				
Pension Fund	**Accrued Liability**	**Net Assets**	**Unfunded Liability**	**Funded Ratio**
Teachers	$ 90,025	$ 36,517	$ 53,508	40.6%
Universities	$ 33,170	$ 13,705	$ 19,465	41.3%
State Employees	$ 33,091	$ 10,961	$ 22,135	33.1%
Judges	$ 2,022	$ 578	$ 1,444	28.6%
General Assembly	$ 304	$ 53	$ 251	17.4%
Total	**$ 158,612**	**$ 61,814**	**$ 96,803**	**39.0%**

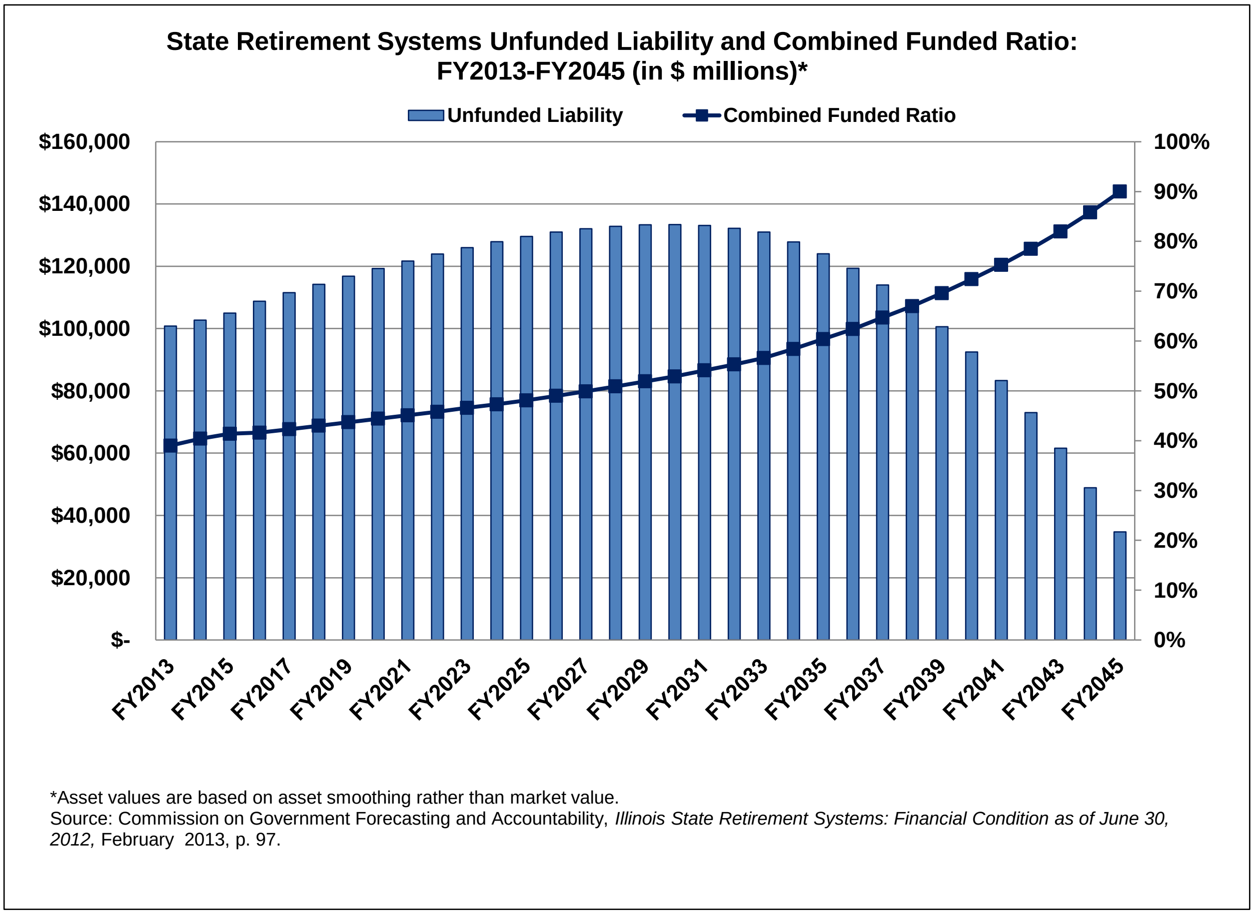
Source: Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012* , February 2013, p. 25.

Beginning in FY2009, the retirement systems have been required to recognize unexpected gains and losses on assets over a five-year period.[205] This method, known as asset smoothing, mitigates the effects of short-term stock market volatility; as a result, investment losses suffered by the systems in the market downturn of 2008 and 2009 are not fully reflected. Using the asset smoothing approach, the systems had a total unfunded liability of $94.6 billion and a combined funded ratio of 40.4% as of the end of FY2012.[206]

State pension contributions are determined by a 50-year funding plan that began in FY1996.[207] At the end of FY1995, the total unfunded liability stood at approximately $19.5 billion.[208] After a phase-in period of 15 years, the law requires State contributions at a level percentage of payroll sufficient to achieve a 90% funded ratio by the end of FY2045. The retirement systems calculate and certify the amounts needed each year to meet the requirements of this funding schedule.

[204] Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, p. 25.
[205] Public Act 96-0043.
[206] Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, p. 24.
[207] Public Act 88-0593.
[208] Commission on Government Forecasting and Accountability, *Report on the 90% Funding Target of Public Act 88-0593*, January 2006, p. i. This statistic is based on the market value of assets.

The funding plan and subsequently enacted changes deferred a large portion of the required State contributions to later years. The next chart shows the retirement systems' most recent funding projections through FY2045.[209]



The funding schedule does not require the State to make adequate contributions to keep unfunded liabilities from growing until approximately 2031.[210] Statutorily required State contributions have also been less than those required under the reporting standards of the Governmental Accounting Standards Board.[211]

Beginning in FY2005, State contributions were reduced by the amount of debt service on $10.0 billion in pension bonds issued in FY2003.[212] The State issued a total of $7.2 billion in POBs to make its General Funds pension contributions for FY2010 and FY2011, but debt service amounts

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[209] See Appendix C on page 105 for data.
[210] Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, p. 97. The contribution amount that is adequate to keep unfunded liabilities from growing consists of the normal cost (the amount needed to cover the present value of benefits earned by system members in each fiscal year) plus interest on the unfunded liability. This contribution, while adequate to prevent growth in unfunded liabilities, is not enough to pay down unfunded liabilities.
[211] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, p. 59. Under Government Accounting Standards Board (GASB) 25, the Annual Required Contribution (ARC) is the amount required to pay the employer's normal cost plus the cost to amortize a pension plan's unfunded liability over a period of no more than 30 years.
[212] Public Act 93-0002. The bonds, which will be retired in 2033, were used to pay down $7.3 billion of the unfunded liability and pay part of the FY2003 General Funds pension contributions and all of the FY2004 contributions.

on those bonds are not deducted from statutorily required contributions. State contributions for FY2006 and FY2007 were reduced by law when the State took a partial pension holiday to free up funds for other expenses.[213]

To lower pension costs, the State in April 2010 created a two-tier benefits system with less generous benefits for workers hired on or after January 1, 2011.[214] The new tier of benefits, known as Tier 2, includes higher retirement ages, a maximum pensionable salary and lower automatic annual benefit increases.

Tier 2 employees receive annual benefit increases of 3% or one-half of the annual increase in the Consumer Price Index, whichever is less. Current Illinois retirees and those hired before January 1, 2011 receive automatic annual increases of 3%. New workers' benefits grow more slowly over time because the annual increase is based on a simple rate, while the benefits of retirees and existing employees are increased based on a compounded rate.[215]

Savings due to these benefit reductions will increasingly affect the State's budget in future years. As a larger percentage of the workforce is covered by the lower benefits, the accrued pension liability will decline and statutorily required State contributions will be reduced.[216]

On March 11, 2013, the U.S. Securities and Exchange Commission (SEC) charged the State with securities fraud for allegedly misleading bond investors about Illinois' approach to funding its pension obligations.[217] The SEC alleged that the State from 2005 to early 2009 did not disclose the structural deficiencies in its pension funding plan and misled investors about the effect of the pension holidays in FY2006 and FY2007.

Illinois settled the case without admitting or denying the charges and was not required to pay fines or penalties. Since 2011, the State has significantly expanded the information about retirement systems included in the documents issued in connection with bond sales.

Budget Impact in FY2014 and Beyond

In the proposed FY2014 budget, statutorily required General Funds pension contributions are $6.0 billion.[218] The FY2014 payments will be made from General Funds rather than through issuing pension bonds, as in FY2010 and FY2011.

Transfers out of General Funds to pay for debt service on outstanding pension bonds are $1.7 billion in FY2014. Total General Funds pension-related costs of $7.7 billion represent 24.5% of projected FY2014 State-source General Funds revenues of $31.5 billion.

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[213] Public Act 94-0004.

[214] Public Act 96-0889. This legislation also applies to most non-public safety local government pension funds across the State.

[215] A simple rate increase applies the stated rate only to the initial benefit amount, while a compounded rate increase applies the stated rate to the initial benefit amount plus previously earned increases.

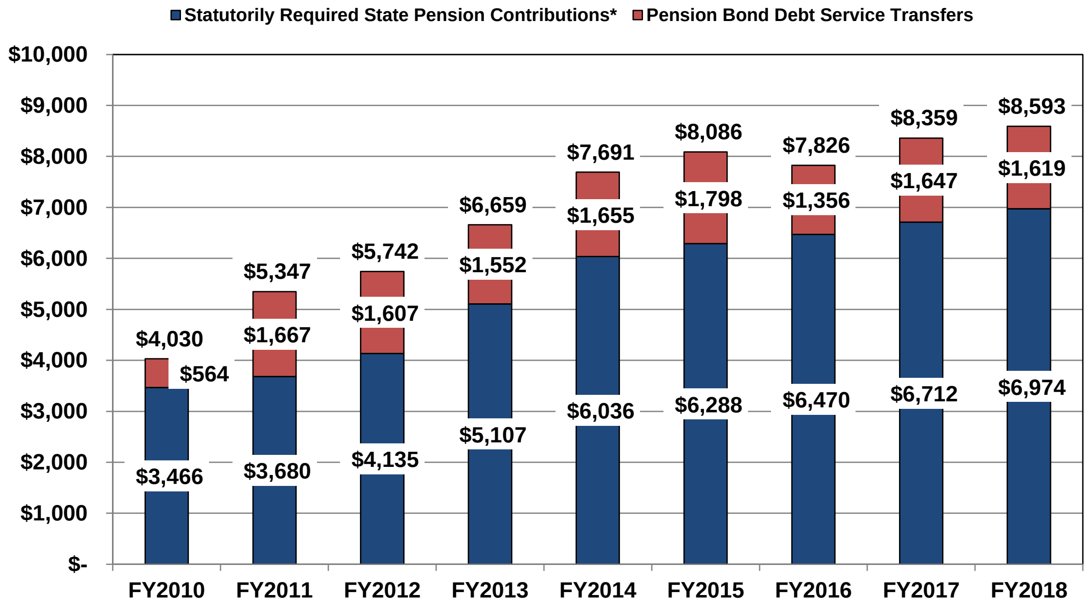
[216] State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, p. 76.

[217] Securities and Exchange Commission, "SEC Charges Illinois for Misleading Pension Disclosures," *news release*, March 11, 2013.

[218] Approximately 89% of the State's FY2014 pension contributions are expected to come from General Funds. The remainder—$715 million—will be made from Other State Funds.

The following chart shows General Funds pension costs from FY2010 to FY2018. Contribution amounts after FY2014 are Civic Federation estimates based on the systems' actuarial valuation reports as of June 30, 2012.[219] Debt service is not reduced significantly until FY2019, after the FY2011 pension bonds are paid off completely.

State of Illinois Projected General Funds Pension-Related Payments FY2010-FY2018 (in $ millions)



*Pension contributions in FY2010 and FY2011 were made primarily by issuance of pension obligation bonds, rather than from General Funds.For FY2015 through FY2018, General Funds contributions to the State Employees' Retirement System are assumed to be 66% of total State contributions and General Funds contributions to the State Universities Retirement System are assumed to be reduced by contributions from the State Pensions Fund at the FY2013 level of $150 million. Required contributions to the Teachers' Retirement System Guaranteed Minimum Annuity Reserve are based on the $1.1 million certified amount in FY2014.
Source: State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, p. 16; State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement*, September 13, 2012, p. 8; Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, pp. 97-102.

Actual required contributions could vary from projections due to changes in actuarial assumptions or results that differ from the current assumptions. In FY2014, for example, General Funds contributions increase by $929 million to $6.0 billion from $5.1 billion in FY2013. The retirement systems' actuarial reports in the fall of 2011, however, suggested contributions of approximately $5.4 billion for FY2014.[220]

The projections for FY2014 underestimated the actual required contribution amount due to revised actuarial assumptions by TRS and poor investment returns at all of the systems in FY2012. TRS had projected in December 2011 that it would need a State contribution of $2.9 billion in FY2014, up from $2.7 billion in FY2013.[221] The actual certified contribution amount for FY2014 is $3.4 billion.[222] A larger than projected contribution was required because of TRS'

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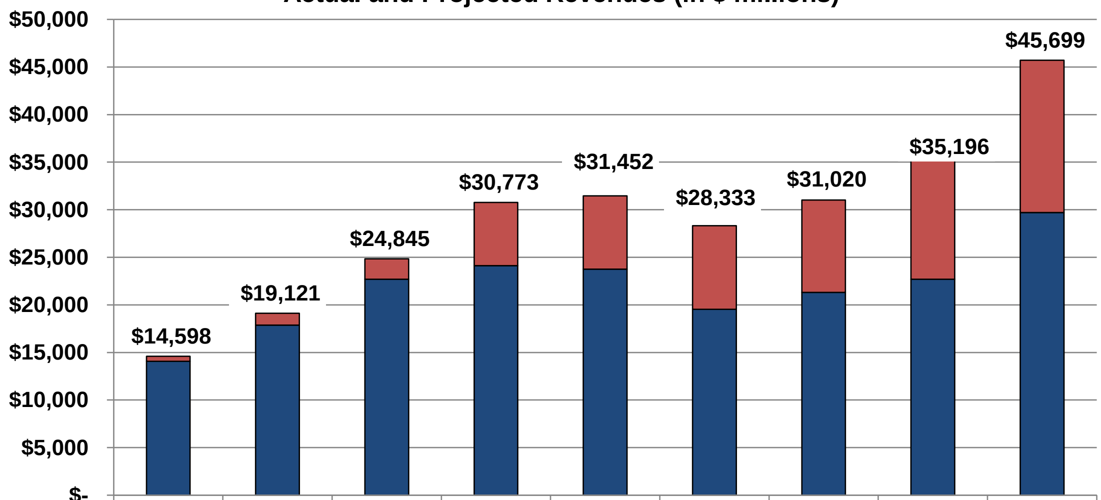
[219] General Funds contributions are assumed to account for 66% of the State's total contributions to the State Employees' Retirement System. General Funds contributions to the State Universities Retirement System are assumed to be reduced by contributions from the State Pensions Fund at the FY2013 level of $150 million.
[220] Civic Federation calculation based on retirement systems' actuarial valuation reports as of June 30, 2011.
[221] Teachers' Retirement System of the State of Illinois, *June 30, 2011 Actuarial Valuation of Pension Benefits*, December 2011, p. 29.
[222] Teachers' Retirement System of the State of Illinois, *June 30, 2012 Actuarial Valuation of Pension Benefits*, October 2012, p. 2.

September 2012 decisions to lower the assumed investment rate of return to 8.0% from 8.5%, thus increasing the need for other sources of funding. In addition, TRS earned a 0.76% return on its investments in FY2012, down from 23.6% in FY2011.

The next chart compares the growth of General Funds pension costs—including both contributions and debt service—to the growth of actual and projected State-source General Funds revenue through FY2045. The chart reflects scheduled partial sunsets in 2015 and 2025 of temporary income tax increases enacted in 2011 and assumes that State-source General Funds revenue will increase at an annual rate of 2.2% a year. Pension costs grow from 3.6% of revenue in FY1996 to 24.5% in FY2014 to 35.5% in FY2033. Payments on pension bonds stop after FY2033, when the bonds sold in 2003 are completely paid off.

State of Illinois General Funds Pension Cost Compared to Actual and Projected Revenues (in $ millions)



	FY1996	FY2002	FY2008	FY2013	FY2014	FY2019	FY2025	FY2033	FY2045
State-Source Revenue*	$14,598	$19,121	$24,845	$30,773	$31,452	$28,333	$31,020	$35,196	$45,699
Pension Cost**	$526	$1,253	$2,153	$6,659	$7,691	$8,808	$9,717	$12,496	$15,996
Remaining Revenue	$14,072	$17,868	$22,692	$24,114	$23,761	$19,524	$21,303	$22,700	$29,703
Pensions as % Revenue	3.6%	6.6%	8.7%	21.6%	24.5%	31.1%	31.3%	35.5%	35.0%

* State-source revenue projections from FY2016 to FY2045 assume a 2.2% compound annual growth rate and incoporate income tax rollbacks under current law scheduled in FY2015 and FY2025.
**Cost includes debt service on pension bonds and pension contributions from General Funds . Contributions for FY2019 through FY2045 are Civic Federation calculations based on retirement systems' actuarial projections as of June 30, 2012. Debt service amounts are transfers out of General Funds for FY2013 and prior years and actual payments amounts thereafter.
Source: Illinois State FY1999 Budget, p. 11-17; Illinois State FY2005 Budget, p.1-38; Illinois State FY2010 Budget, p. 2-33; Illinois State FY2014 Budget, p. 2-16 and p. 2-56; Governor's Office of Management and Budget, *Three-Year Budget Projection (General Funds), FY14-FY16*, January 11, 2013; Communication between the Civic Federation and the Governor's Office of Management and Budget, February 1, 2013 ; Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, pp. 97-102 and 113-117.

After analyzing how much of the State's future revenues will have to go toward pension costs under current law, the TRS Board of Trustees approved a resolution on March 30, 2012 stating that it no longer had confidence that the State could meet its funding obligations to TRS.[223] The resolution represented a change of position for TRS, which had previously maintained that the State would adhere to the pension funding law requiring 90% funding by FY2045.

TRS accounted for $2.4 billion, or 58.2%, of total General Funds pension contributions in FY2012 and $3.4 billion, or 57.0%, in FY2014. TRS' actuaries examined how the fund would fare under several different scenarios: if the FY2012 contribution grew by 3% a year for 37 years; if the FY2012 contribution were frozen for 37 years; and if the FY2012 contribution were

[223] Teachers' Retirement System of the State of Illinois, *Board of Trustees Resolution*, March 30, 2012.

cut to $1.4 billion and frozen at that level for 37 years.[224] The analysis showed that the fund would become insolvent in 2049 under the first scenario, in 2038 under the second and in 2030 under the third.

Pension Reform Proposals

The proposed FY2014 budget states that curbing annual pension expenses is essential to the State's fiscal health.[225] The previous year's budget also emphasized the urgent need for pension changes.[226] Although Governor Quinn proposed a framework for pension reform in April 2012 and several bills were debated in the General Assembly, the legislature did not approve comprehensive pension legislation.[227]

Efforts to reduce pension costs have been blocked by opposition from labor unions and concerns about the legality of reducing pension benefits. The State's largest union, Council 31 of the American Federation of State, County and Municipal Employees (AFSCME), has contended that pension reform proposals that significantly reduce State costs would unduly burden employees and threaten their retirement security.[228]

Any sweeping pension changes are expected to be challenged on constitutional grounds. The Illinois Constitution provides that membership in any pension system in the State is an enforceable contractual relationship and that member benefits "shall not be diminished or impaired."[229] Legal opinions have varied on the interpretation of this provision.[230]

Two bills now under consideration by the General Assembly represent different approaches to the legal issues. A proposal by House Speaker Michael Madigan, passed by the House on May 2, 2013, is based on the theory that reducing pension benefits will be deemed to be necessary because of the State's dire fiscal condition and lack of other feasible options.[231] A bill sponsored by Senate President John Cullerton, passed by the Senate on May 9, is based on the idea that cutting pension benefits can only be constitutional if employees and retirees are granted something valuable in exchange.[232]

Speaker Madigan's plan would apply to TRS, SERS, SURS and GARS, but not the Judges' system. It would start in FY2015 and require sufficient State contributions to reach 100% funding in 30 years.

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[224] Chris Wetterich, "TRS director: Retirees might have to take a pension cut," *State Journal-Register*, March 31, 2013.
[225] Illinois State FY2014 Budget, pp. 2-1 to 2-2.
[226] Illinois State FY2013 Budget, p. 2-1.
[227] Office of Governor Pat Quinn, "Governor Quinn Proposes Bold Plan to Stabilize the Public Pension System," *news release*, April 20, 2012. For more information on General Assembly activity in 2012 and early 2013 relating to pensions, see The Civic Federation's Institute for Illinois' Fiscal Sustainability, *State of Illinois Enacted Budget FY2013: A Review of the Operating Budget for the Current Fiscal Year*, October 8, 2012, pp. 4-12, http://www.civicfed.org/StateofIllinoisEnactedBudgetFY2013, and State of Illinois FY2014 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly, February 25, 2013, p. 11, http://www.civicfed.org/iifs/publications/IllinoisRoadmapFY2014.
[228] Chris Wetterich, "Unions gear up to oppose state pension changes," *State Journal-Register*, May 16, 2012.
[229] Illinois Constitution, Article XIII, Section 5.
[230] For a collection of legal opinions on the Illinois pension clause, see the Illinois Senate Democrats' website, http://www.senatedem.ilga.gov/index.php/component/content/article/108-public-information-brochures/1517-pension-debate (last visited on April 24, 2013).
[231] 98th Illinois General Assembly, Senate Bill 1, House Amendment 1, passed by the House on May 2, 2013.
[232] 98th Illinois General Assembly, Senate Bill 2404, Senate Amendment 2, passed by the Senate on May 9, 2013.

The plan would make the following major changes:

- Limit automatic annual benefit increases to the lesser of 1) 3% of the pension benefit, compounded or 2) 3% of $1,000 multiplied by the number of years of service. Under this limit, a retiree not covered by Social Security with 30 years of service would receive a maximum annual increase of $900 a year. Current retirees receive unlimited compounded increases of 3%;
- Delay annual benefit increases until age 67 or until the fifth year after retirement, whichever comes first;
- Phase in higher retirement ages for those under 45;
- Cap the maximum salary on which a pension is based at the same level as new employees (approximately $110,000 currently);
- Increase employee contributions by 2 percentage points, phased in over two years.
- Guarantee that the State make its contributions by requiring the pension funds to seek redress in the Supreme Court;
- Eliminate the requirement in State law that pension changes be subject to collective bargaining; and
- Use an actuarial method supported by the Government Accounting Standards Board to allocate annual benefit costs. This method, known as entry age normal, smoothes pension costs over time compared with the projected unit credit method used by the State, which increases costs over time.

The House Speaker's proposal has not been reviewed by actuaries to determine its financial impact. However, the bill is similar to legislation introduced in December 2012 that was reviewed by actuaries for TRS, SURS and SERS.[233] The actuarial reviews indicated that the proposals would reduce the total unfunded liability by approximately $28 billion. The State's total required pension contributions, including both General Funds and other State Funds, would decline by about $1.9 billion in FY2014 and $159 billion through FY2045.[234]

During the debate on the House floor on May 2, Speaker Madigan said that his proposal is expected to reduce the State's required contribution in FY2015 by $1.5 billion from FY2014. Total State contributions are scheduled to be $6.8 billion in FY2014 and projected at $7.0 billion in FY2015. The House Speaker's statement suggests that FY2015 contributions after the changes would be $5.3 billion or 24% below the projected $7.0 billion under current law.

Governor Quinn issued a statement supporting the legislation.[235] If the measure is approved by the Senate, Speaker Madigan said that he expects a court challenge. The House Speaker said implementation of the law would be blocked by the court while lawsuits are adjudicated.

On May 6, 2013, Senate President John Cullerton announced that he had reached an agreement with the We Are One Illinois coalition of public employee unions on a new pension proposal.[236] The bill covers the same four retirement systems as Speaker Madigan's and includes a funding

[233] 97th Illinois General Assembly, House Bill 6258, introduced on December 5, 2012.
[234] For a link to the actuarial reviews, see The Civic Federation's Institute on Illinois' Fiscal Sustainability blog, http://www.civicfed.org/iifs/blog/analysis-pension-reform-proposal-shows-significant-state-savings.
[235] Governor Pat Quinn, "Statement from Governor Pat Quinn on Illinois House's Passage of Historic and Comprehensive Pension Reform," *news release*, May 2, 2013.
[236] Ray Long, "Senate leader counters with union-backed pension plan," *Chicago Tribune*, May 7, 2013.

guarantee by the State. Unlike the Speaker's proposal, it would keep the funding schedule unchanged from existing law.

Retirees and employees hired before January 1, 2011 would be offered the following choices, centered on reducing or forgoing the existing compounded automatic annual 3% benefit increase:

- **Retirees**
  Choice A: Keep existing 3% compounded automatic annual benefit with staggered two-year freeze. Receive access to retiree health insurance.
  Choice B: No change to existing 3% compounded automatic annual benefit increase. No access to retiree health insurance.
- **Employees**
  Choice A: Annual automatic increase is reduced to 3% simple with a two-year delay. Receive access to retiree health insurance. All future salary increases are credited toward pensions.
  Choice B:
  Option 1: No change to existing 3% compounded automatic annual benefit increase. No access to retiree health insurance and no pension credit for future salary increases.
  Option 2: No change to existing 3% compounded automatic annual benefit increase, receive access to retiree health insurance and pension credit for future salary increases. Three-year delay in automatic annual adjustment and two percentage point increase in employee contributions phase in over two years.

Actuarial reviews of the financial impact of the proposal have not been made available. Senate President Cullerton has said that the plan would save $850 million in pension contributions and $150 million to $200 million in retiree health insurance costs in FY2015.[237] Depending on the choices made by employees and retirees, the Senate President said the proposal would reduce State pension contributions by between $45 billion and $51 billion over 30 years and lower the State's unfunded pension liability by between $8.5 billion and $15.7 billion.[238]

Senate President Cullerton has said that one of the major advantages of his proposal is that unions would not challenge it in court. However, an organization of retired teachers recently said it would sue the State if either the plan sponsored by the House Speaker or the Senate President were enacted.[239]

The major proposals currently under consideration do not include a component of the Governor's pension reform framework that has proven to be particularly controversial: shifting responsibility for funding the normal cost of pension benefits for TRS and SURS from the State to local school districts, public universities and community colleges. Normal costs are the retirement benefits earned by workers during a given fiscal year and do not include previously accrued benefits. Proponents of the shift argue that actual employers should gradually take responsibility for pension costs because they determine the salaries on which pensions are based.[240] Opponents are concerned that a shift could lead to higher property taxes, even though many school districts are in counties where property tax caps are in effect.

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[237] Senate President John Cullerton, statement on Senate floor, May 9, 2013.
[238] Doug Finke, "Illinois Senate committee approves union-backed pension plan," *State Journal-Register*, May 8 , 2013.
[239] Doug Finke, "Retired teachers say union plan is unconstitutional, too," *State Journal-Register*, May 7, 2013.
[240] Chris Wetterich, "Cross challenges Madigan on Pensions," *State Journal-Register*, May 30, 2012.

House Speaker Madigan said during the House debate on his pension proposal that he planned to address in the near future the issue of shifting responsibility for the annual pension costs of teachers and university and community college employees. At a meeting at the State Capitol on May 9 to discuss implementation of the cost shift, the House Speaker stated that such a change was inevitable.[241]

STATE GROUP HEALTH INSURANCE

The FY2014 budget proposes an increase of $246 million, or 22.4%, in General Funds appropriations for the State Employees' Group Insurance Program to $1.346 billion from $1.1 billion in FY2013.

This section provides a brief overview of the State group insurance program, an analysis of the FY2014 budget proposal and a review of the projected financial impact of a new collective bargaining agreement with the State's largest union, the American Federation of State, County and Municipal Employees (AFSCME). Cost estimates for FY2014 are subject to change because the new contract, which covers FY2013 through FY2015, has not yet been signed.

The section also discusses the State's separate retiree health insurance programs for teachers and community college employees outside of Chicago: the Teachers' Retirement Insurance Program (TRIP) and the College Insurance Program (CIP).

State Group Insurance Overview

The State Employees' Group Insurance Program is expected to provide health insurance coverage for an estimated 365,066 participants in FY2014, including employees and retirees and their dependents.[242] The State offers both a traditional health insurance plan, which allows participants to choose any doctor or hospital, and managed care plans such as Health Maintenance Organizations (HMOs), which generally restrict choices.[243]

The traditional health plan, the Quality Care Health Plan (QCHP), is more costly.[244] Membership in QCHP has been decreasing since FY2005, while membership in managed care plans has been increasing in recent years. QCHP membership is expected to total 112,438 in FY2014, a decrease of 21.2% from 142,779 in FY2005.[245] In FY2014 30.8% of total participants were expected to be enrolled in QCHP and 69.2% in managed care plans.

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[241] Doug T. Graham, "Madigan: Putting pension costs on schools 'going to happen,'" *Daily Herald*, May 10, 2013.
[242] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 7. The program also provides life insurance at a relatively small cost to the State.
[243] For more information on the State's group insurance program, see The Civic Federation, *State of Illinois Employee Health Insurance Plans: Analysis and Recommendations for Cost Containment*, April 16, 2007, http://www.civicfed.org/civic-federation/publications/state-illinois-employee-health-insurance-plans-analysis-and-recommenda.
[244] Although participants may choose any medical services provider, they receive enhanced benefits for using doctors and hospitals that are members of a network. The State assumes the risk for some of its insurance plans, including QCHP, and contracts with insurance companies to provide other plans.
[245] Commission on Government Forecasting and Accountability, *Fiscal Year 2006 Liabilities of the State Employees' Group Insurance Program,* March 2005, *p. 4;* Commission on Government Forecasting and Accountability, FY2014 *Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 7.

Retirees, however, have overwhelmingly chosen the more expensive traditional health plan. In FY2013 62.8% of retirees were enrolled in QCHP.[246] Until June 2012, Illinois law stated that State employees who retired before January 1, 1998 and those who retired after that date with at least 20 years of service were not required to pay health insurance premiums.[247] Exceptions included General Assembly members and constitutional officers, who could retire with as few as four years of service and not pay any premiums, and judges, who could retire with as few as six years of service and not pay premiums.[248]

Approximately 90% of the more than 80,000 retirees covered by the State's group insurance program did not pay any health insurance premiums as of January 2011.[249] In June 2012, Illinois enacted legislation that eliminated premium-free health coverage for retirees.[250] The legislation did not specify how retiree health insurance premiums would be determined, leaving that decision to the State's Department of Central Management Services (CMS).

The State negotiated retiree health benefits with its largest union, the American Federation of State, County and Municipal Employees (AFSCME), during the collective bargaining process for a new contract to replace an agreement that expired on June 30, 2012. Administration officials have said that they are required to negotiate on retiree health insurance because State officials have followed that practice since the early 1990s.[251] The administration has cited a provision of the Illinois Public Labor Relations Act that requires collective bargaining with regard to matters that were previously the subject of labor negotiations.[252]

A tentative agreement was reached with AFSCME Council 31 on February 28, 2013, and union members approved the deal a month later. However, the union has not signed the contract and plans to put it to another vote due to a continuing dispute relating to back wages.[253]

State Group Insurance Appropriations and Costs

The FY2014 budget proposes total appropriations of $2.9 billion for State group insurance, including General Funds appropriations of $1.346 billion. In addition to General Funds, resources for the program come from the State's Road Fund, State universities, member contributions and other sources, including a retiree Medicare Part D prescription drug coverage subsidy from the federal government.

The next table shows group health insurance expenditures for FY2009 through FY2012, estimated expenditures for FY2013 and proposed appropriations for FY2014. The recommended

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[246] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 8.

[247] 5 ILCS 375/10. The State has contributed 5% of the premium cost for each full year of service, up to a maximum of 100% for retirees with 20 or more years of service.

[248] General Assembly members elected before January 1, 2011 can retire at age 62 with four years of service; those elected on or after that date must be 67 with eight years of service. Judges elected or appointed before January 1, 2011 can retire at 62 with six years of service; judges elected or appointed on or after that date must be 67 with eight years of service.

[249] Commission on Government Forecasting and Accountability, *Request for Proposals to Provide Consulting Services*, February 17, 2011, p. 2.

[250] Public Act 97-0695.

[251] Communication between the Civic Federation and the Governor's Office of Management and Budget, March 6, 2013.

[252] 5 ILCS 315/4.

[253] For more information on personnel, see page42 of this report.

FY2014 General Funds appropriation of $1.346 billion represents an increase of $246.0 million, or 22.4%, from $1.1 billion in FY2013. [254]

State of Illinois Group Insurance Expenditures and Appropriations: FY2009-FY2014 (in $ millions)*						
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Est.	FY2014 Rec.
General Funds	$ 1,058	$ 1,146	$ 885	$ 1,436	$ 1,100	$ 1,346
Other State Funds**	$ 703	$ 833	$ 1,084	$ 1,001	$ 1,237	$ 1,593
Total	**$ 1,761**	**$ 1,979**	**$ 1,969**	**$ 2,437**	**$ 2,337**	**$ 2,939**

*Includes health insurance and life insurance.

**Other State Funds appropriations are adjusted to avoid double counting.

Source: Illinois State FY2014 Budget, p. 2-29 and p. 6-71; Illinois State FY2013 Budget, p. 2-31 and p. 5-67; Illinois State FY2012 Budget, p. 2-26 and p. 11-72; Illinois State FY2011 Budget, p. 2-20 and p. 6-21.

The appropriation in FY2013 represented a considerable decrease from the $1.436 billion appropriated in FY2012. The FY2013 appropriation was based on the assumption that labor unions would agree to contract provisions that substantially reduced the State's costs in time to generate savings in that fiscal year. Due to protracted negotiations with AFSCME, however, savings are not expected to be realized until FY2014.

[254] Appropriations in the table, as in the budget, include both health insurance and life insurance. Health insurance appropriations in FY2014 total $2.71 billion, including $1.33 billion in General Funds appropriations and $1.38 billion in net Other State Funds appropriations.

The next table shows health insurance savings expected from the new three-year contract, as summarized by CMS in April 2013. The agreement with AFSCME has not been finalized, and the provisions could be changed if negotiations are reopened. As shown in the table, the State expects savings of $903 million from the contract. It should be noted that these savings are expected to be partially offset by wage increases.[255]

State of Illinois Health Projected Health Savings Due to AFSCME Contract: FY2013-FY2015 (in $ millions)[1]				
	FY2013	FY2014	FY2015	All Years
Plan Design	$ -	$ (52)	$ (86)	$ (138)
Employee Contributions	$ -	$ (111)	$ (124)	$ (235)
Retiree Contributions	$ -	$ (64)	$ (64)	$ (128)
Maximum Reimbursable Charge[2]	$ -	$ (10)	$ -	$ (10)
Medicare Advantage[3]	$ -	$ (58)	$ (174)	$ (232)
Medicare Coordination[4]	$ -	$ (34)	$ -	$ (34)
SERS Opt Out[5]	$ -	$ (25)	$ (13)	$ (38)
Wellness	$ -	$ -	$ (53)	$ (53)
Insurance Committee Initiatives	$ -	$ -	$ (35)	$ (35)
Total	**$ -**	**$ (354)**	**$ (549)**	**$ (903)**

[1]Members of Council 31 of the American Federation of State, County and Municipal Employees approved the contract on March 20, 2013, but the union said on April 30 that it plans to put the contract to another vote due to a dispute over back wages.

[2]Change in methodology for computing reimbursement for out-of-network services.

[3]The FY2015 savings for Medicare Advantage includes $58 milliion in FY2016.

[4]Effective July 1, 2013, the State will no longer pay 100% of the claim balance of medical claims after Medicare pays its portion for a plan participant enrolled in QCHP. Medicare primary participants will be subject to standard benefit deductibles and coinsurance for services after Medicare pays.

[5]Retirees who are not eligible for Medicare and opt out of the State plan for other coverage receive up to $500 a month.

Source: Illinois Department of Central Management Services, Submission to General Assembly's Commission on Government Forecasting and Accountability, April 16, 2013.

Projected State savings due to retiree contributions total $128 million. Under the new contract, retirees who are eligible for Medicare will pay 1% of their pension toward health insurance beginning July 1, 2013 and another 1% beginning July 1, 2014.[256] Retirees not eligible for Medicare, who are more expensive for the State to cover, will contribute 2% of their pensions on July 1, 2013, and another 2% starting on July 1, 2014. Although retirees who are not eligible for Medicare will pay a larger share of their pensions, retiree payments are not based on the cost of the health insurance.

Retirees will also pay $34 million more in deductibles and coinsurance because of Medicare coordination, under which the State will stop paying 100% of the claim balance of medical claims for QCHP after Medicare pays its portion.[257] The State expects to save $38 million by

[255] For more information on personnel, see page42 of this report.

[256] Doug Finke, "AFSCME ratifies contract with Quinn administration," *State Journal-Register*, March 20, 2013. Employees will pay 1% of their salaries toward health insurance premiums.

[257] State of Illinois, Department of Central Management Services, *Benefit Choice Options*, State of Illinois, Enrollment Period
May 1 – May 31, 2013. p.5.

giving retirees not eligible for Medicare a $500 a month incentive to opt out of the State group health insurance plan and get other coverage.[258]

A substantial portion of the projected savings—$232 million—is expected to come from enrolling Medicare-eligible retirees in a Medicare Advantage plan. Medicare Advantage plans are offered by private companies that contract with the federal government to provide Medicare benefits. In addition to Medicare benefits, the Medicare Advantage plan would provide State retirees with supplemental benefits similar to those offered by the State group insurance plan. At a hearing of the legislature's Commission on Government Forecasting and Accountability (COGFA) in April 2013, CMS officials were questioned about the savings projection but said that details had not yet been worked out.[259]

Uncertainties connected to the union contract make it difficult to estimate State group health insurance costs for FY2014. COGFA, which issues a report each year on the program's liabilities, stated in its report for FY2014 that final cost estimates were not available from CMS as of May 1, 2013.[260]

COGFA estimates that State group insurance costs (including both health and life insurance) will rise by 6.8% to $2.8 billion in FY2014, while CMS predicts growth of 5.4% to $2.7 billion.[261] Total program costs have increased by 69.2% from $1.6 billion in FY2005.[262] The average cost per participant increased by 60.1% to $7,475 in FY2014 from $4,670 in FY2005.[263]

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[258] This provision requires a change in State law. Senate Bill 1515, which includes the change, passed the House on April 9, 2013 but has not been considered by the Senate.

[259] Testimony of Central Management Services at Commission on Government Forecasting and Accountability hearing, April 16, 2013.

[260] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p.1.

[261] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 4.

[262] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 9.

[263] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 10.

The next table, based on the COGFA report, compares projected health insurance contributions by the State with contributions of retirees, employees and their dependents. The State is expected to pay 83.9% of total costs, compared with 16.1% for retirees, employees and dependents.[264]

State of Illinois Group Health Insurance Costs by Member Category: Projected FY2014 (in $ millions)*		
Category	**FY2014**	**% of Total**
Retiree contribution	$ 77.9	10.3%
State contribution	$ 680.8	89.7%
Total	**$ 758.7**	100.0%
Employee contribution	$ 159.5	17.0%
State contribution	$ 780.2	83.0%
Total	**$ 939.7**	**100.0%**
Dependent contribution	$ 191.2	20.0%
State contribution	$ 764.4	80.0%
Total	$ 955.6	100.0%
Total member	$ 428.6	16.1%
Total State	$ 2,225.4	83.9%
Total	**$ 2,654.0**	**100.0%**

*Does not include life insurance and interest costs included in other State group insurance liability estimates.

Source: Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program* , May 2014, p. 13.

Retirees are expected to contribute $77.9 million, or 10.3% of their total costs of $758.7 million, in FY2014.[265] A previous COGFA report showed that retirees were expected to pay 3.6% of their health insurance costs in FY2013.[266] However, it could not be determined whether the data were comparable due to the transfer of the program from the Illinois Department of Healthcare and Family Services to CMS as of July 1, 2012.[267] In FY2014 the average monthly premium will be $82 for a non-Medicare retiree and $48 for a Medicare retiree.[268]

In response to concerns about the cost of the State's health insurance program, COGFA hired the Mercer consulting firm in 2011 to study retiree health insurance contributions. The firm's report, issued in May 2011, cited a national survey of large employers in 2010, which found that retirees and dependents were required to pay an average of slightly more than 50% of the total cost of retiree healthcare.[269] Using this benchmark, Mercer said that the State could save $260 million to

[264] Total costs shown in this chart are lower than elsewhere in this report because the number does not include certain life insurance costs and interest costs.
[265] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 13.
[266] Commission on Government Forecasting and Accountability, *FY2013 Liabilities of the State Employees' Group Health Insurance Program*, March 2013, p. 13.
[267] Communication between the Civic Federation and the Illinois Department of Central Management Services, May 8, 2013.
[268] Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 16.
[269] Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, p. 2.

$300 million in FY2012 by increasing premiums for retirees and their dependents.[270] The changes favored by Mercer based premiums on pension or household income, years of service and age at which retirees begin to receive health benefits.[271] For a retiree with a $40,000 pension, this approach resulted in a premium for QCHP of $197 a month if the retiree was eligible for Medicare and $539 if the retiree was not eligible for Medicare.[272] The firm recommended that any changes be phased in over two or three years to give participants time to plan and adjust.[273]

The State makes contributions to the group insurance program on a pay-as-you go basis rather than prefunding future obligations to retirees. As of June 30, 2011, the latest information available, the program's accrued liability for current and future retirees was estimated at $33.3 billion.[274] No information was available on how the recent program changes will affect this accrued liability.

Group health insurance bills, like Medicaid bills, are covered by the Section 25 exception to the State Finance Act that allows prior years' bills to be paid from future years' appropriations.[275] Due to inadequate appropriations, unpaid group health insurance bills are expected to grow from $321.1 million at the end of FY2009 to $1.9 billion at the end of FY2013.[276] Based on projected savings assumptions, the proposed FY2014 budget assumes that the program will be adequately funded in FY2014 and that unpaid bills will not grow. The FY2014 budget does not provide funding to pay down the $1.9 billion backlog.

Healthcare providers for State employees are currently waiting as long as 385 days to be paid, according to COGFA.[277] The payment delay is expected to increase to as much as 413 days in FY2014.

TRIP and CIP

The State also makes General Funds contributions to the Teachers' Retirement Insurance Program (TRIP) and the College Insurance Program (CIP) to cover retired teachers outside Chicago and downstate retired community college employees. Retirees in TRIP and CIP have been required to pay premiums.

TRIP has 262,180 participants, including 59,358 retirees.[278] Benefits offered by TRIP are funded through retiree premiums; percentage-of-payroll contributions from active employees (0.88%),

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270 Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, p. 2.
271 Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, pp. 13-14.
272 Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, Appendix A, p. 1.
273 Mercer, *Retiree Healthcare Contributions*, Commission on Government Forecasting and Accountability, May 17, 2011, p. 3.
274 Illinois State Employees Group Insurance Program, *GASB No. 45 Actuarial Valuation Report as of June 30, 2011*, December 22, 2011, p. 2.
275 30 ILCS 105/25 (b-4).
276 Communication between the Civic Federation and the Governor's Office of Management and Budget, April 12, 2013; State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, April 2, 2013, *Official Statement*, p. 46.
277 Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 1.
278 Teachers' Retirement Insurance Program of the State of Illinois, *GASB No. 43 Actuarial Valuation Report as of June 30, 2011*, January 6, 2012, p. 8.

local school districts (0.66%) and the State (0.84%); and a Medicare Part D prescription drug subsidy from the federal government.[279] The FY2014 budget includes the statutorily required State contribution of $90.4 million.[280]

There is no arrangement to prefund benefits for TRIP, although a trust exists into which employers are making contributions that slightly exceed annual expected net claim payments. The unfunded liability was $18.9 billion as of June 30, 2011.[281]

CIP has 34,473 participants, including 5,240 retirees.[282] Benefits offered by CIP are funded through retiree premiums; percentage-of-payroll contributions from active employees (0.50%), community colleges (0.50%) and the State (0.50%); and a Medicare Part D prescription drug subsidy from the federal government.[283] The proposed FY2014 budget appropriates the statutorily required State contribution of $4.4 million.[284]

As is the case with TRIP, there is no arrangement to prefund benefits for CIP. A trust exists into which employers are making contributions, but benefit payments slightly exceeded contributions in FY2011. The unfunded liability was $2.1 billion as of June 30, 2011.[285]

Retirees covered by TRIP effectively obtain subsidies if they live out of state. Under Illinois law, TRIP retirees who do not have access to the State's managed care networks—including those who live outside of Illinois—pay half as much in premiums for the traditional health plan.[286]

For example, the monthly premium in FY2014 is $359.99 for a TRIP retiree aged 65 or older without Medicare who does not have access to managed care and is $719.96 for the same retiree who does have access to managed care.[287] The monthly premium is $104.44 for a Medicare-eligible TRIP retiree without access to managed care and $208.87 for the same retiree with access to managed care. Managed care plans are available in all Illinois counties.[288]

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279 Teachers' Retirement Insurance Program of the State of Illinois, *GASB No. 43 Actuarial Valuation Report as of June 30, 2011*, January 6, 2012, p. 1.

280 Letter to Governor Pat Quinn from Richard W. Ingram, Executive Director of the Teachers' Retirement System of the State of Illinois, November 1, 2012; Illinois State FY2014 Budget, p. 6-269.

281 Teachers' Retirement Insurance Program of the State of Illinois, *GASB No. 43 Actuarial Valuation Report as of June 30, 2011*, January 6, 2012, p. 2.

282 College Insurance Program of Illinois, *GASB No. 43 Valuation as of June 30, 2011*, December 20, 2011, p. 8.

283 College Insurance Program of Illinois, *GASB No. 43 Valuation as of June 30, 2011*, December 20, 2011, p. 1.

284 Letter to Governor Pat Quinn from William E. Mabe, Executive Director of the State Universities Retirement System, October 26, 2012; Illinois State FY2014 Budget, p. 6-294.

285 College Insurance Program of Illinois, *GASB No. 43 Valuation as of June 30, 2011*, December 20, 2011, p. 2.

286 5 ILCS 375/6.5(e)(2) and (3).

287 State of Illinois, Department of Central Management Services, *Benefit Choice Options*, Teachers' Retirement Insurance Program, Enrollment Period May 1 – May 31, 2013, p. 4.

288 State of Illinois, Department of Central Management Services, *Benefit Choice Options*, Teachers' Retirement Insurance Program, Enrollment Period May 1 – May 31, 2013, p. 9.

DEBT TRENDS

The State of Illinois currently has a total of $30.8 billion in outstanding bonded debt issued to pay for capital investments and to fund its pension systems. In FY2014 the State will pay a total of $3.7 billion in debt service, including both principal and interest, of which $2.1 billion comes from the General Funds.

The State is authorized to issue short-term debt to relieve cash flow issues during the fiscal year or to cover unexpected revenue shortfalls. However, the State has not issued short-term debt since FY2010 and currently has no short-term debt outstanding.[289]

The following section examines existing long-term debt issued by the State of Illinois and the amount of debt service owed by the State on an annual basis. Although Illinois experienced several years of declining debt levels as it paid off more bonds than it issued between FY2005 and FY2009, the State has increased its debt levels since FY2010 through the issuance of bonds to make pension payments and to support the newly authorized capital budget.[290]

General Obligation and Revenue Bonds

Under the General Obligation Bond Act, the State is authorized to issue General Obligation (GO) bonds to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[291] GO bonds are guaranteed by a pledge of the full faith and credit of the State, which is a legally binding pledge to pay both principal and interest on these loans as required by the bond agreements prior to any other use of state funds.

The State appropriated a total of $16.0 billion in capital projects to be funded by State GO bonds in FY2010 as part of the ongoing *Illinois Jobs Now!* capital program.[292] As part of the capital budget approved by the Governor and General Assembly in FY2010, the State initially increased the GO Bonds authorization by $5.8 billion to fund the capital projects. The bond authority was increased by an additional $4.2 billion in March 2011.[293] The most recent increase in the GO Bond authorization was in July 2012 when the State approved an increase of $1.6 billion for capital projects.[294] The total bonding authority is still below the enacted capital appropriations and will need further increases to enable all of the approved bond funded projects to be completed. Currently the State's capital appropriations for GO bond funded capital projects exceed the State's debt authorization by $2.3 billion.[295]

Capital purpose GO bond issuances totaled $2.7 billion in FY2010, $1.2 billion in FY2011, $1.375 billion in FY2012 and are expected to total $2.0 billion in both FY2013 and FY2014.[296]

Illinois has issued several types of revenue bonds to fund capital projects. Unlike GO bonds, revenue bonds are not guaranteed by the full faith and credit of the State but rather pledge a

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[289] Illinois State FY2014 Budget, p. 7-5.
[290] See the Capital Budget section on page 91 of this report for more details on *Illinois Jobs Now!*
[291] 30 ILCS 330/1 (2001).
[292] Illinois State FY2013 Budget, p. 6-11.
[293] Public Act 96-1554.
[294] Public Act 97-0771.
[295] Commission on Government Forecasting and Accountability, *State of Illinois FY2014 Capital Plan Analysis*, April 2013, p. 19.
[296] Illinois State FY2014 Budget, p 7-9.

portion of specific state revenues. The State currently pays directly for two types of revenue bonds. The Metropolitan Exposition and Auditorium Authorities bond program was supported by the issuance of Civic Center Bonds, the last of which were sold in 1992. The FY2014 budget shows $72.8 million in Civic Center Bonds outstanding; the State will make its final payment on this debt in FY2021.[297] Although originally financed in part by horse racing taxes, these bonds are now fully repaid by General Funds payments by the State.[298]

Build Illinois Bonds were first issued in 1985 and are backed by 3.8% of the State's portion of sales tax receipts. The total Build Illinois Bond authorization currently stands at $5.7 billion of which the State has issued $4.7 billion. Capital appropriations approved through FY2013 to be funded by Build Illinois Bonds exceed the total authorization by $825 million. Build Illinois Bond sales totaled $530 million in FY2010, none were sold in FY2011and $300 million were sold in FY2012. The Governor's recommended FY2014 budget estimates $150 million in Build Illinois Bond sales in FY2013 and projects $300 million in FY2014.[299] The State currently has $2.7 billion in Build Illinois Bonds outstanding to be repaid annually through FY2036.[300]

The GO Bond Act was amended in FY2003 to allow for debt-funded payments to the State's retirement systems. The State approved $10 billion in Pension Obligation Bonds (POBs) to fund a part of the unfunded liabilities of the State's retirement systems. A portion of the bond proceeds was used to make part of the State's required annual contributions to the fund in FY2003 and FY2004. The pension bond authorization was increased in FY2010 by $3.5 billion to make the annual contributions to the retirement systems that would have come from the State's General Funds. The bonds will be repaid over the next five years. In FY2011 the State again issued POBs to make its annual contribution to the retirement systems, this time totaling $3.7 billion to be repaid over eight years.[301]

The State receives General Funds relief for the debt service it owes on the $10 billion in POBs sold in FY2003 because of a reduction in the amount required to be paid into the retirement systems each year. Provisions of the authorization for the bonds allow the State to reduce the required annual pension contributions certified by the pension funds by the total annual debt service owed on the FY2003 POBs in each fiscal year.[302] This effectively pays for the pension bonds each year by freeing up General Funds resources that would otherwise be used to make required pension payments. The original FY2003 POBs were financed over 30 years and the last bonds will be retired in FY2033.

The debt service owed by the State on the FY2010 and FY2011 POBs is paid directly from General Funds without any offsetting reduction in pension contributions. The FY2010 POBs are retired over five years and the FY2011 series are eight-year bonds. The principal repayment on the FY2011 POBs is delayed until after the majority of the FY2010 bonds have been repaid. This back loading of the principal for the FY2011 POBs keeps the aggregate debt service owed on both series relatively level but greatly increases the total cost of the FY2011 bonds. The FY2010 POBs totaled $3.5 billion and will cost $382 million in interest over five years. The FY2011 bonds, which totaled $3.7 billion, will cost the State $1.3 billion in interest costs over eight

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297 Illinois State FY2014 Budget, p. 7-12.
298 30 ILCS 355, Metropolitan Civic Center Support Act, 1987.
299 Illinois State FY2014 Budget, p. 6-13.
300 State of Illinois, General Obligation Bonds, Series A April 2013 and Taxable Series B April 2013, *Official Statement*, April 12, 2013, p. 50.
301 See page 64 for more details on the unfunded liabilities of the State's retirement systems.
302 Public Acts 98-0593, 94-0004 and 93-0009.

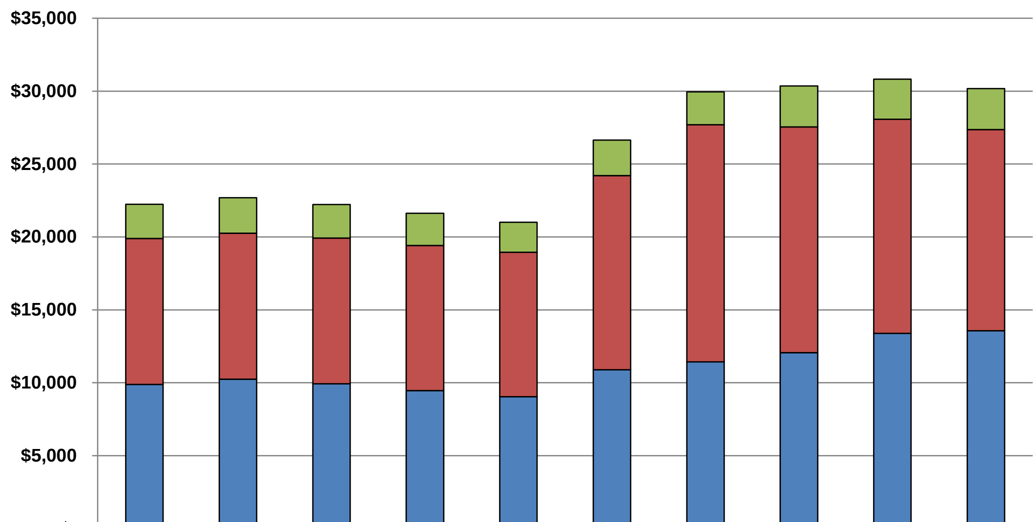
years. Although the total principal borrowed only increased by $234 million, or 6.8%, the State will pay $897.5 million more in interest for the FY2011 bonds, a 234.8% increase over the total interest cost for the FY2010 bonds. At the end of FY2013, the State will have a total of $15.5 billion in POBs still outstanding to be repaid through FY2033.[303]

The Governor's FY2014 recommended budget anticipates the State's total bonded indebtedness will decline by $642.5 million to $30.2 billion, which is 2.1% less than the FY2013 total of $30.8 billion. The decrease in debt burden is attributable to the repayment of POBs, which decline by $893.2 million to $13.8 billion from $14.7 billion. Meanwhile GO bonds for capital purposes increase by $178.6 million to $13.6 billion in FY2014 from $13.4 billion in FY2013 and revenue bonds increase by $72.1 million to $2.8 billion in FY2014 from $2.7 billion in FY2013.

Over the last ten years the State's total debt burden increased by $7.9 billion. In FY2005 the State's bonded debt totaled $22.2 billion, or 35.7% less than the projected FY2014 total. The majority of the increase took place over the last five fiscal years, as outstanding debt declined slightly from FY2006 to FY2009 before increasing dramatically due to the pension bonds issued in FY2010 and FY2011.

The following chart shows the total debt increase for all GO bonds and revenue bonds over the last ten fiscal years.

State of Illinois Bonded Indebtedness: Total Capital GO Bonds, Pension Bonds and Build Illinois/Civic Center Bonds, FY2005-FY2014 (in $ millions)



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 (Est.)	FY2014 (Proj.)
Total Outstanding Debt	$22,241	$22,694	$22,230	$21,622	$21,016	$26,638	$29,955	$30,356	$30,822	$30,179
Build Illinois/Civic Center	$2,348	$2,443	$2,305	$2,209	$2,064	$2,428	$2,254	$2,805	$2,747	$2,819
Pension Bonds	$10,000	$10,000	$10,000	$9,950	$9,900	$13,316	$16,273	$15,480	$14,686	$13,793
GO Capital Bonds	$9,893	$10,251	$9,926	$9,463	$9,052	$10,894	$11,429	$12,071	$13,388	$13,567

Source: Illinois State Budgets FY2005-FY2014.

[303] Illinois State FY2014 Budget, p. 7-11.

It should be noted that prior to the issuance of POBs, which were added to the debt burden in FY2003, the State's total outstanding debt was dramatically lower. In FY2002 the State's outstanding debt totaled $9.5 billion or $20.6 billion less than the projected FY2014 total.

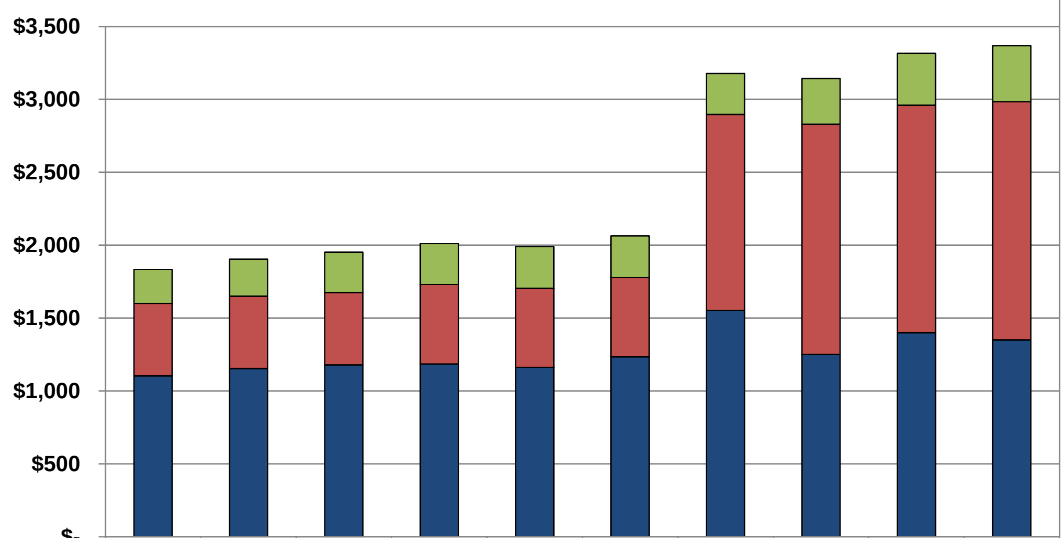
Total Debt Service

The State's debt service schedule sets forth the principal and interest amounts due for outstanding bonds on an annual basis. In FY2014 the State estimates its required debt payments will total $3.4 billion for all the outstanding GO bonds, POBs and revenue bonds for which it directly appropriates funds. The total debt service owed increases slightly from FY2013 payments, which were $3.3 billion. The largest increases to annual debt service came in FY2004 and FY2010, which are the years immediately following the sale of new POBs. Debt service in FY2012 does not increase significantly because the FY2011 POBs were back-loaded, with only small interest payments in the early years and the bulk of the principal maturing after the five-year FY2010 pension bonds were repaid.

Over the last 10 years, the total debt service paid directly by State funds has increased by $1.5 billion, or 83.7%, from the total of $1.8 billion in FY2005.

The following chart shows total debt service owed for existing Pension Obligation bonds, GO capital bonds and Build Illinois/Civic Center Bonds from FY2005 through FY2014.

State of Illinois Total Capital Purpose and Pension Bonds Debt Service (Principal + Interest) FY2005-FY2014 (in $ millions)



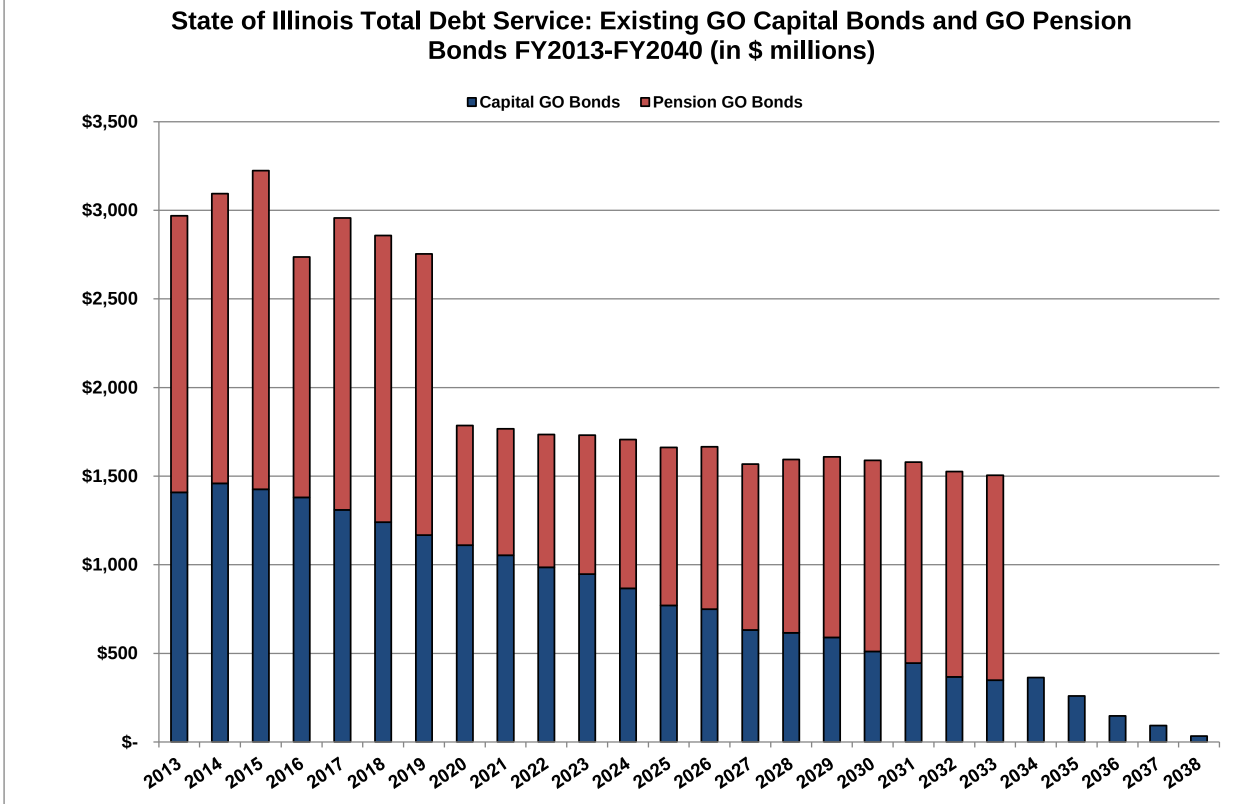
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 (Est.)	FY2014 (Proj.)
Total Debt Service	$1,834	$1,905	$1,953	$2,010	$1,990	$2,063	$3,177	$3,143	$3,316	$3,369
Build Illinois/Civic Center	$235	$255	$278	$280	$286	$286	$280	$313	$356	$385
Pension Bonds	$496	$496	$496	$546	$544	$544	$1,344	$1,579	$1,561	$1,634
GO Capital Bonds	$1,103	$1,154	$1,179	$1,184	$1,160	$1,234	$1,553	$1,251	$1,399	$1,350

Source: Illinois State Budgets FY2005-FY2014.

Annual debt service totaled $1.2 billion in FY2003, which was the last year that the State's annual debt service did not include payments for POBs. Since then the total annual debt service owed by the State has more than doubled, increasing by $2.2 billion, or 183.2%, to $3.4 billion in FY2014.

Between FY2013 and FY2038, the State of Illinois will pay a total of $45.6 billion in debt service for all currently outstanding GO bonds backed by the full faith and credit of the State. Of that total, $24.2 billion is POB debt service, including $8.8 billion in interest and $15.5 billion of principal.[304] The State's total GO debt service includes $21.1 billion for all outstanding capital purpose GO bonds.[305] The capital GO debt service is made up of $7.0 billion in interest due on $14.1 billion of principal spread over the next 25 years.

The following chart shows the total annual debt service due on the State's outstanding GO bonds from FY2013 through FY2038, when all current outstanding bonds are repaid.



Source: State of Illinois, General Obligation Bonds, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement*, April 2, 2013, pp. 45, 48.

General Funds Debt Service

Debt Service owed by the State is paid through funds deposited in the General Obligation Retirement and Interest Fund (GOBRI) and represent the amount the State is required to pay investors over the life of the debt. However, the General Funds cost of the State's annual debt service varies greatly from the total debt service cost.

The State does not pay for all of the debt service associated with the capital purpose GO bonds from the General Funds. GO capital bonds are also funded through transfers from the Capital

[304] Illinois State FY2014 Budget, p. 7-11
[305] Illinois State FY2014 Budget, p. 7-11.

Projects Fund, Common School Fund and the Road Fund, which have dedicated revenue sources outside the State's operating budget. The total debt service owed on the outstanding POBs are paid out of the General Funds.

The GO Bond Act requires that the State prefund two months' worth of debt service at the time bonds are sold. This leads to an increased transfer to the GOBRI Fund in the fiscal year that new bonds are sold and a transfer less than total debt service in the final year of their maturities.[306] At the time bonds are sold the State may also receive advance funding in the form of capitalized interest or premiums paid by investors. These amounts are set aside in reserve and used to lower the State's annual cost of debt service in future fiscal years.

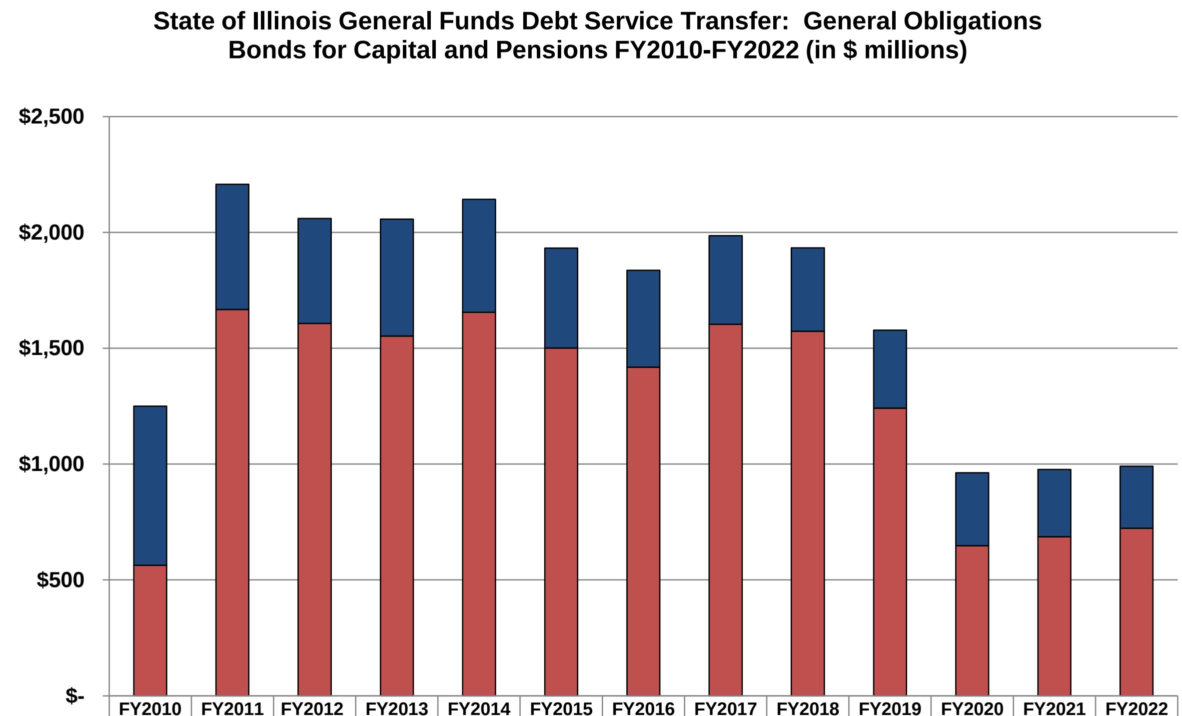
In FY2014, the State will transfer an estimated $2.1 billion from the General Funds to the GOBRI Fund for payments toward the total $3.4 billion owed in the coming fiscal year by the State.

The State estimates that the General Funds debt service transfer for capital GO bonds will total $487 million in FY2014, down slightly from the FY2013 total of $505 million.[307] The transfer for payment of POBs increases by $103 million to $1.7 billion in FY2014 from $1.6 billion in FY2013.

FY2014 represents a peak year for the projected General Funds debt service transfer. However, the debt service transfer from the State's general operating funds does not decline significantly until after FY2019 when the FY2011 POBs are fully repaid. In FY2020 total debt service transfer is expected to decline by $616 million to $962 million from $1.6 billion in FY2019. The FY2020 transfer is $1.2 billion less than the peak year of FY2014.

[306] 30 ILCS 330/14.
[307] Email Communication between the Civic Federation and the Governor's Office of Management and Budget, April 25, 2012.

The following chart shows the General Funds debt service transfers from FY2010 through FY2020.



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Total	$1,250	$2,207	$2,060	$2,057	$2,142	$1,932	$1,836	$1,986	$1,933	$1,578	$962	$977	$990
Capital	$687	$540	$453	$505	$487	$431	$418	$383	$360	$336	$314	$290	$268
Pensions	$564	$1,667	$1,607	$1,552	$1,655	$1,501	$1,418	$1,603	$1,573	$1,242	$648	$686	$723

Source: Communication between Civic Federation staff and the Governor's Office of Management and Budget, September 21, 2012 and May 1, 2013

Bond Ratings

Debt ratings are one of the factors that weigh heavily in determining the interest rate the State must pay to issue debt. Consequently, declines in the State's rating lead to an overall increase in debt service costs for Illinois.

The State of Illinois' GO bond ratings have been lowered multiple times by each of the three major rating agencies since FY2009. Illinois currently has the lowest rated credit of all 50 states by Moody's Investor services and Standard and Poor's. It is the second lowest rated state by Fitch ahead of only California. The following chart shows the ratings decline over the last three fiscal years.

State of Illinois General Obligation Bond Ratings FY2008-FY2013			
	Moody's Investors Services	**Standard & Poor's**	**Fitch Ratings**
FY2008	Aa3	AA	AA
FY2009	A1	AA-	A
FY2010	A1, Aa3*	A+	A-, A+*
FY2011	A1	A+	A
FY2012	A2	A+	A
FY2013	A2	A-	A

*Moody's and Fitch increased Illinois' bond ratings in March 2010 due to recalibrations of their entire rating scales but this was not considered an upgrade.

Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013* , August 2012, p. 185; State of Illinois, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement,* April 2, 2013, p. 88.

All three of the ratings agencies have also issued a negative outlook for Illinois' bond rating, signaling possible further downgrades if the State does not effectively address its ongoing fiscal crisis in the FY2014 budget. The most recent downgrade of the State's bond rating was by Standard and Poor's on January 25, 2013 in advance of a prospective sale of $500 million in new capital GO bonds. Due to the downgrade the State cancelled the sale and returned to the market with a sale of $800 million in April 2013.

In downgrading the State's rating Standard and Poor's analysis specifically warned that although it is unusual for any state rating to fall into the 'BBB' category, the lack of action on pension reform and FY2014 budget challenges could result in further credit downgrades. All three agencies have consistently criticized the State's pension funding and lack of liquidity due to unpaid bills as major problems facing Illinois. The agencies look negatively on the State's poor cash position, or the lack of available revenue to pay its bills, the FY2010 and FY2011 budgets' reliance on one-time revenue sources to pay for ongoing operational expenses, the growing imbalance in the operating budget and the State's unfunded pension liabilities.

However, despite the low ratings compared to other states, Illinois' bonds are still considered investment grade. This means that investors can be assured of the government's good credit and face little or no risk of default according to the agencies' rating definitions. The State would need to be downgraded at least four more levels to be considered at risk of default by the issuer or a speculative grade credit.

Speculative grade bonds are sometimes referred to as junk bonds and typically pay much higher rates of interest to investors due to the additional risk of defaulting on the loans.

The chart below shows the letter ratings and definitions for each level of bond as described by each rating agency. Within each letter rating the agencies have three grades of credit. Both Fitch and S&P use a plus sign, no sign and minus sign to delineate where within a letter grade the credit stands. Moody's system is slightly different and includes the numbers 1, 2 and 3 to show a credit's stratification within a particular letter grade (1 being the highest quality and 3 the lowest).The following chart shows the various rating levels from each of the three major agencies and a description of the credit worthiness assumed of borrowers at each level.

Major Credit Rating Agencies: Ratings Scales and Definitions						
	Moody's	**Definition**	**S&P**	**Definition**	**Fitch**	**Definition**
Investment Grade	**Aaa**	Highest quality, subject to the lowest level of credit risk	**AAA**	Extremely strong capacity to meet financial commitments, highest rating	**AAA**	Lowest default risk, exceptionally strong capacity for payment of financial commitments and highly unlikely to be adversely affected by foreseeable events
Investment Grade	**Aa**	High quality and are subject to very low credit risk	**AA**	Very strong capacity to meet financial commitments	**AA**	Very low default risk, very strong capacity for payment of financial commitments and not significantly vulnerable to foreseeable events
Investment Grade	**A**	Upper-medium grade and are subject to low credit risk	**A**	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances	**A**	Low default risk, strong capacity for payment of financial commitments but more vulnerable to adverse business or economic conditions
Investment Grade	**Baa**	Medium-grade and subject to moderate credit risk and may possess certain speculative characteristics	**BBB**	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions	**BBB**	Low default risk, adequate capacity for payment of financial commitments but adverse business or economic conditions are more likely to impair this capacity
Above Investment Grade, Below Speculative						
Speculative Grade	**Ba**	Speculative and are subject to substantial credit risk	**BB**	Considered highest speculative grade by market participants	**BB**	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments
Speculative Grade	**B**	Speculative and are subject to high credit risk	**B**	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments	**B**	Material default risk is present, but a limited margin of safety remains; financial commitments are currently being met but capacity for continued payment is vulnerable to deterioration in the business and economic environment
Speculative Grade	**Caa**	Speculative of poor standing and are subject to very high credit risk	**CCC**	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments	**CCC**	Default is a real possibility
Speculative Grade	**Ca**	Speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest	**CC**	Currently highly vulnerable	**CC**	Default of some kind appears probable.
Speculative Grade	**C**	Lowest rated and are typically in default, with little prospect for recovery of principal or interest	**C**	Currently highly vulnerable obligations and other defined circumstances	**C**	Default is imminent or inevitable, or the issuer is in standstill.

Source: Fitch Ratings, *Definitions of Ratings and Other Forms of Opinion* , August 2012, http://www.fitchratings.com/web_content/ratings/fitch_ratings_definitions_and_scales.pdf; Moody's Investor Services, *Ratings Symbols and Definitions* , June 2012, http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004; Standard & Poor's, *Standard & Poor's Ratings Definitions* , June 2012, http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245335682757.

CAPITAL BUDGET

Since FY2005 the Governor's annual recommendations for the capital budget and the operating budget have been submitted as separate documents. The budgets are fundamentally different in that appropriations in the operating budget are intended to be spent in the year they are approved, while appropriations in the capital budget fund large infrastructure investments that often take several years to complete and must be reappropriated each year as a project moves forward. The State portion of the capital budget is also primarily funded by long-term debt repaid over the usable life of the assets.

The following section examines the Governor's recommended capital budget for FY2014, which marks the fifth year of the *Illinois Jobs Now!* $31-billion capital spending program.[308]

In FY2014 the Governor proposes reauthorizing $18.1 billion in capital appropriations from previous years. The Governor's FY2014 capital budget also includes $3.3 billion in new capital projects, bringing the total proposed capital appropriations to $21.4 billion for FY2014. Capital appropriations fund maintenance on state-owned assets such as roads and bridges, transit facilities, schools, economic development projects, environmental infrastructure, energy programs and state facilities. It funds the construction of new assets that the State will have to maintain and operate in future years.

Capital Planning

The State of Illinois does not have an established and publicly available capital improvement plan (CIP) to explain the prioritization of projects in the capital budget or the overall needs assessment for all state-owned assets. Although a list of more than 4,000 appropriations accompanies the capital budget document, no planning documents are available to explain the prioritization of projects or estimates of total capital needs for the State. The capital budget book describes a process coordinated by the Capital Development Board and the Governor's Office of Management and Budget to assemble and prioritize the projects in the capital program, but no documentation of the process, comprehensive needs assessment or final ranking of projects was included with the budget.[309] Some of the important elements of a CIP that are missing from the Governor's proposed capital budget include:

- A comprehensive inventory of all state-owned assets, with description of useful life and current condition;
- A five-year summary list of all projects and expenditures per project as well as funding sources per project;
- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

[308] Public Acts 96-0004, 96-0035, 96-0039, 96-0819.
[309] Illinois State FY2014 Capital Budget, pp. 3, 4.

A well-organized and annually updated CIP helps ensure efficient and predictable execution of capital projects and helps prevent the waste of scarce funding resources.[310]

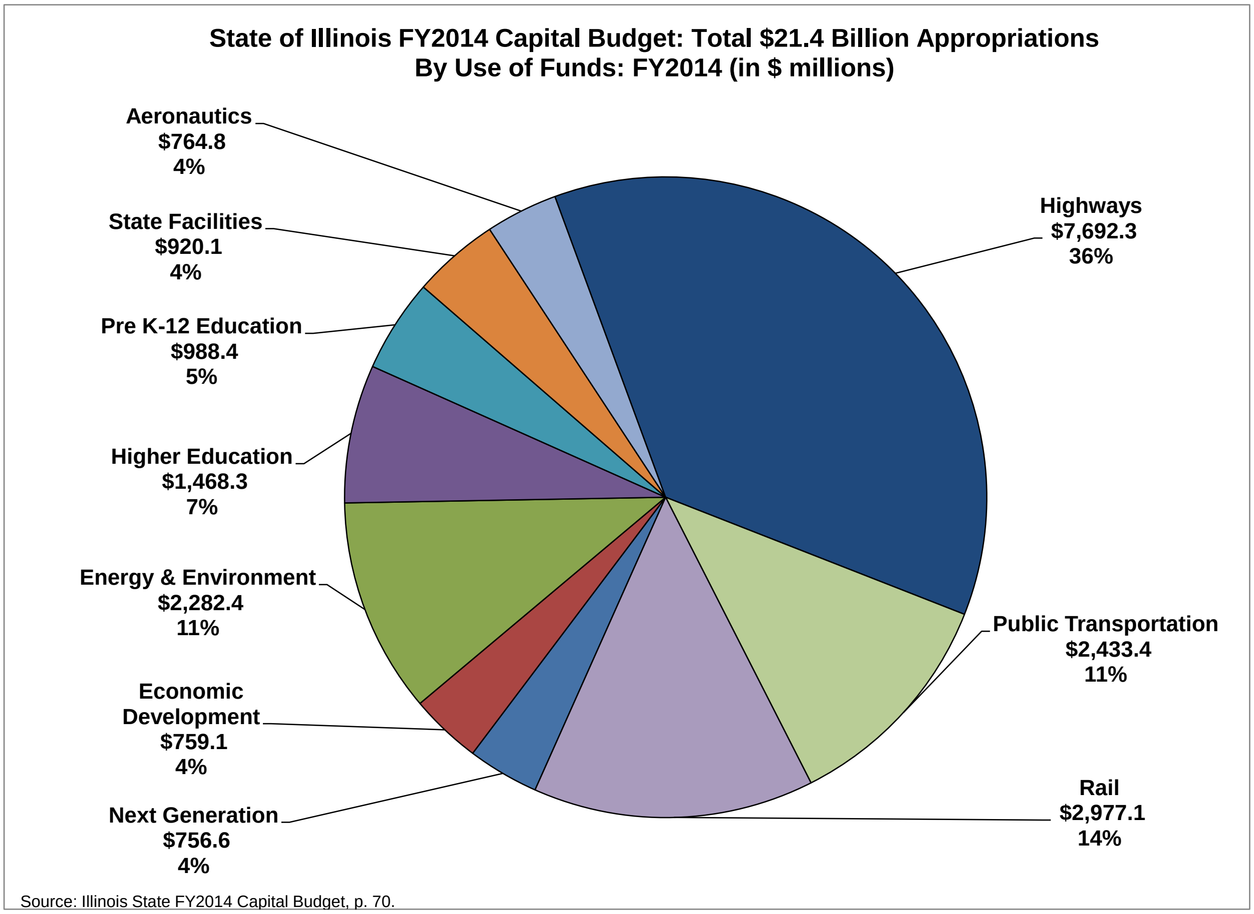
It is important that the capital budget prioritize and fund the State's most critical infrastructure needs before funding new facilities or initiatives. A study by the American Society of Civil Engineers in 2010 on the condition of Illinois' infrastructure concluded that the overall condition and level of investment in Illinois' infrastructure was "poor." Specifically, the report showed the State's aviation facilities, dams and bridges were in "mediocre" condition and the State's infrastructure for drinking water, navigable waterways, rail, roads, transit and wastewater were in "poor" condition.[311] This report has not been updated since *Illinois Jobs Now!* was enacted in FY2010.

Total Appropriations

The FY2012 capital budget recommends the reauthorization of $18.1 billion and new spending totaling $3.3 billion, bringing the total for capital appropriations to $21.4 billion in FY2014.[312] The largest proposed investment of capital funds in the FY2014 capital budget is $7.7 billion for state highways and bridges, which makes up 36.0% of the total capital appropriations. This is nearly three times as much as the next largest category, rail investments, which is allocated $3.0 billion or 14.0% of the appropriations. Both of these areas of funding are managed by the Illinois Department of Transportation (IDOT), as are public transportation investments – the third largest category totaling $2.4 billion.

[310] Vogt, A. John, *Capital Budgeting and Finance: A Guide for Local Governments* (International City/County Management Association, 2004) p. 62.
[311] American Society of Civil Engineers, *Illinois Infrastructure 2010 Report Card*, http://www.isasce.org/web/2010InfrastructureReport.htm (last visited May 6, 2013).
[312] Illinois State FY2014 Capital Budget, p. 70.

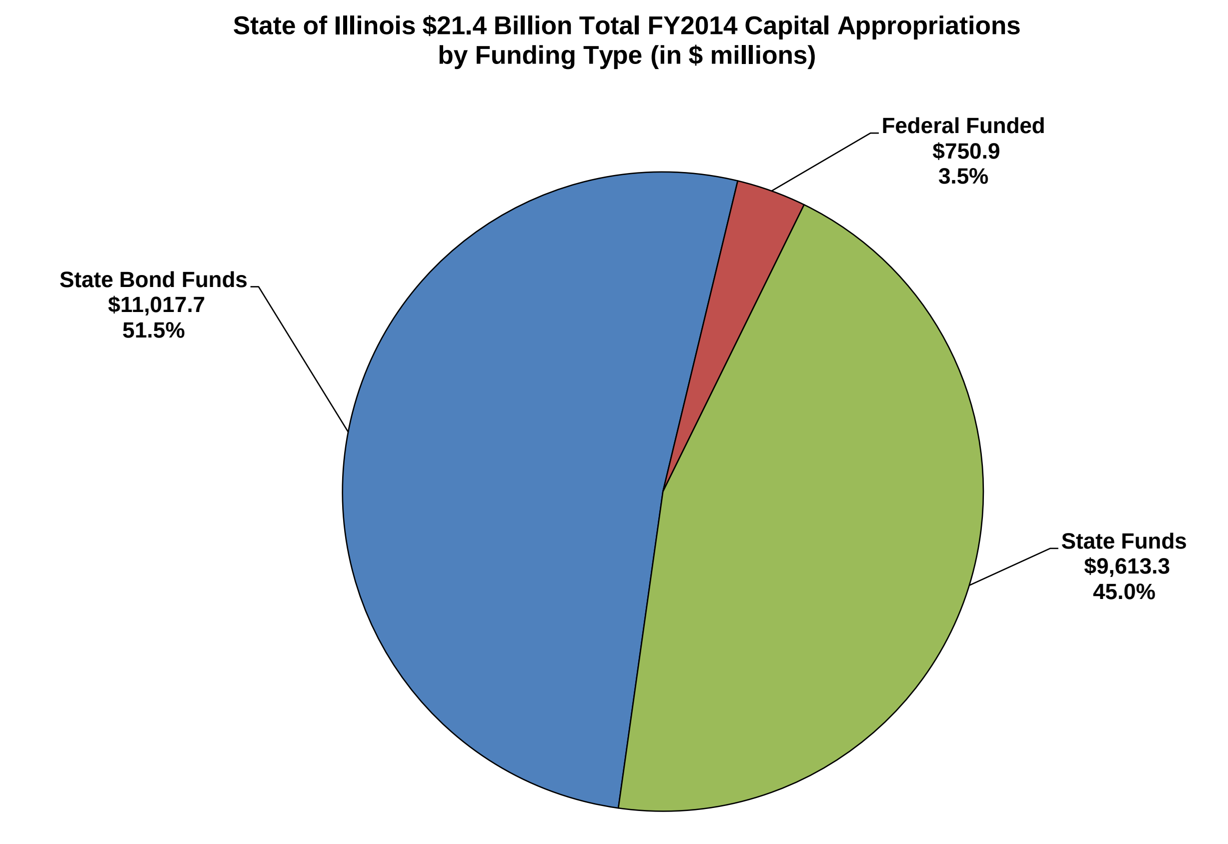
The following chart shows the total recommended FY2014 capital budget by use of funds.



Multiple funding sources will be accessed to pay for the $21.4 billion capital appropriations. The largest source of funding for the capital budget is state-issued debt through the General Obligation Bond and Build Illinois Bond programs.[313] Debt-funded projects total $11.0 billion or 51.5% of the total capital budget. Pay-as-you-go funded projects funded primarily through motor fuel taxes and other State taxes and fees total $9.6 billion and federal funds total $750.9 million.

[313] See the Debt Trends section page 82 of this report for more details on the State's bonded debt.

The following graph shows funding for the FY2014 capital budget by source.

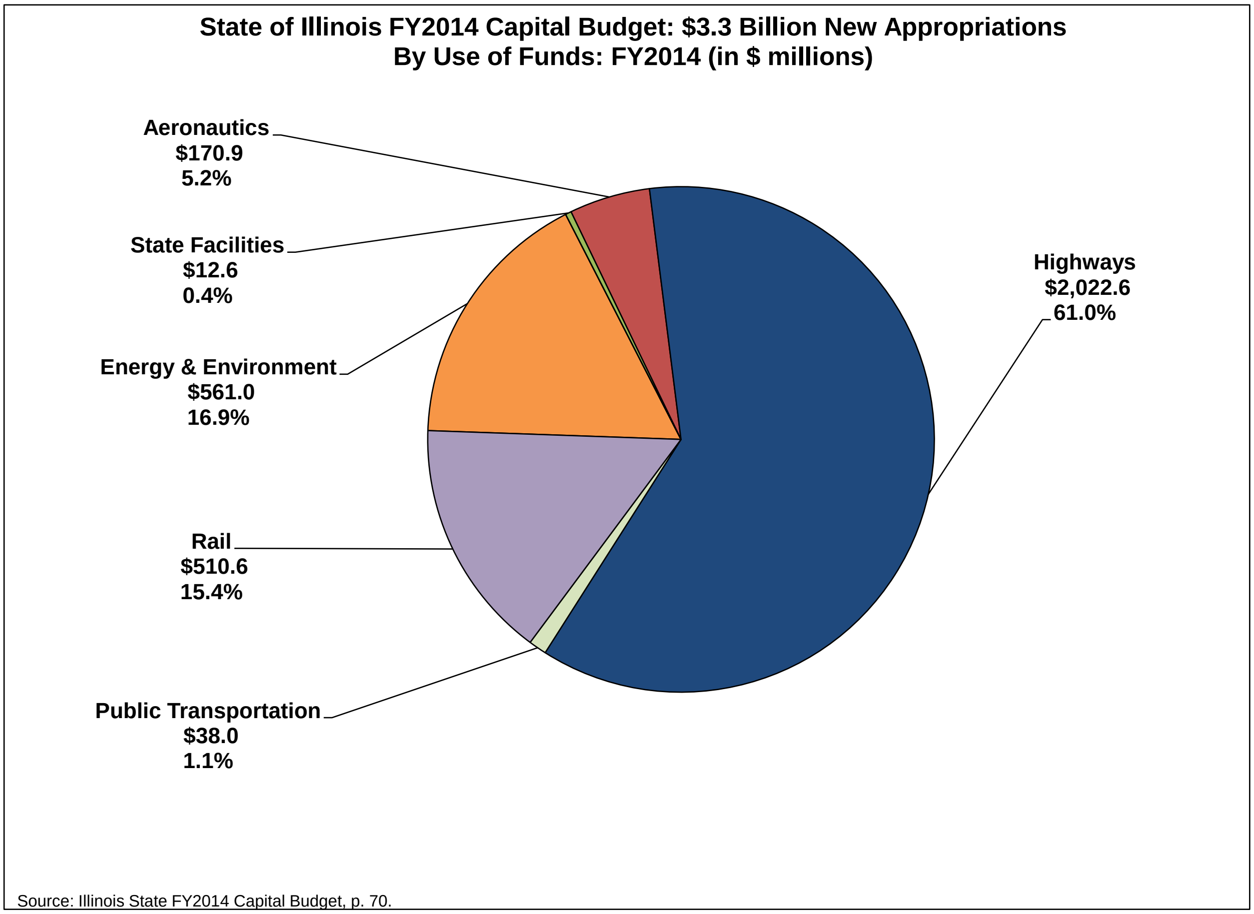


Source: Commission on Government Forecasting and Accountability, *State of Illinois FY2014 Capital Plan Analysis*, April 2013, p. 3.

FY2014 New Appropriations

The proposed increase of $3.3 billion in new capital spending in FY2014 will mostly be funded through a variety of pay-as-you-go sources. The Governor's proposed FY2014 capital budget includes $3.1 billion in new projects funded by State taxes and fees that are deposited in the Road Fund and State Construction Fund, which makes up 93.8% of the new project funding.

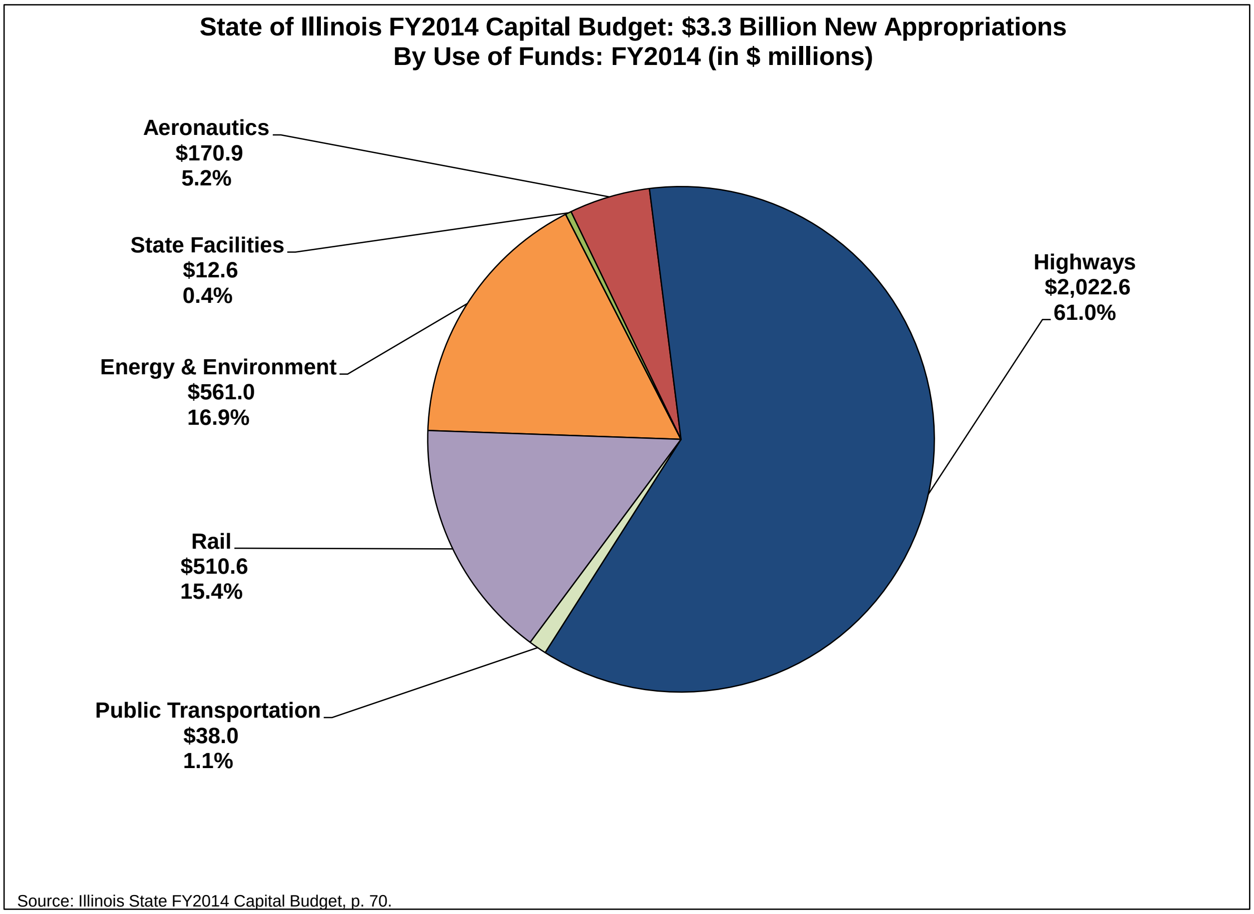
The following chart shows proposed new capital projects in the FY2014 capital budget by funding source.



The largest increase in new appropriation proposed in the FY2014 capital budget is for additional highway projects totaling $2.0 billion. Transportation related mass transit, rail projects and aeronautics construction make up an additional $718.9 million of the proposed new authorizations for FY2014. All of these projects are managed by the Illinois Department of Transportation.

The Illinois Environmental Protection Agency receives nearly all of the remaining new capital funding proposed in the FY2014 capital budget, totaling $561.0 million. The majority of the new funding would come in the form of increased water revolving fund grants including $350.0 million for wastewater loans and $150.0 million for drinking water loans.

The following graph shows the proposed new FY2012 capital appropriations by purpose.

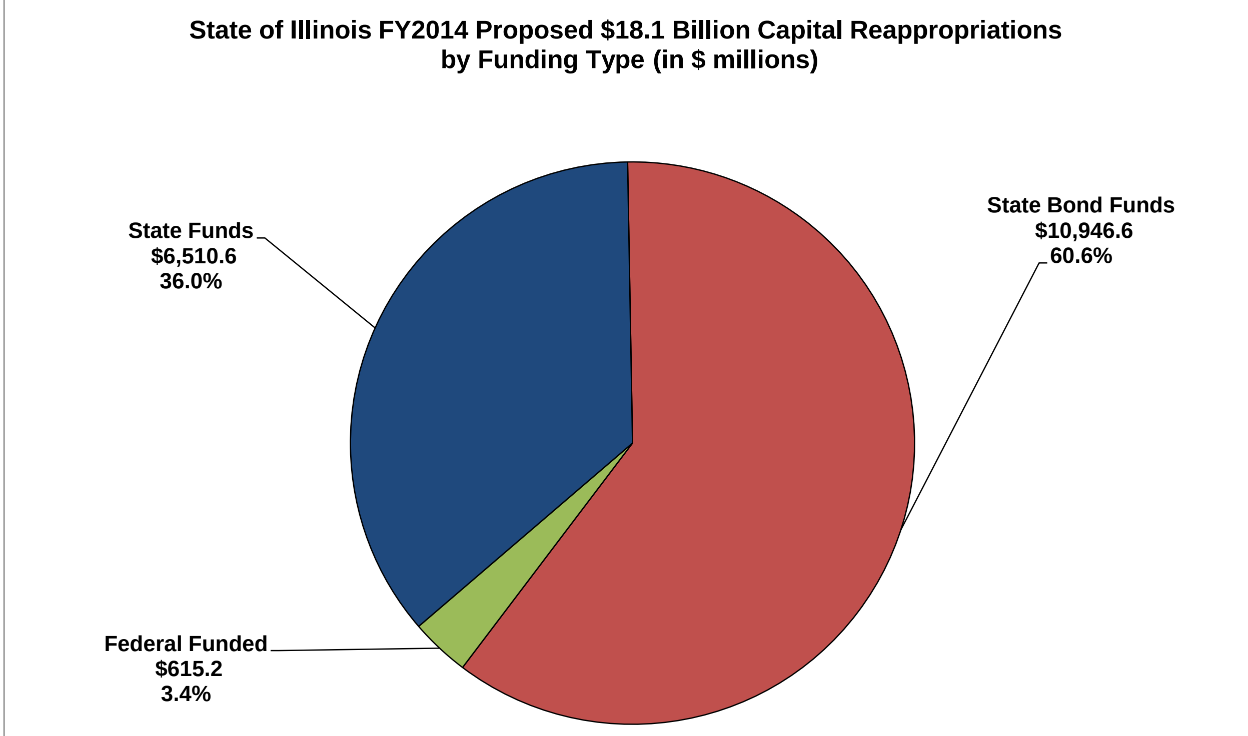


FY2014 Reappropriations

On July 13, 2009, the Governor signed the $31.0 billion *Illinois Jobs Now!* program as enacted by the General Assembly. This was the first statewide transportation bill enacted in Illinois since the *Illinois FIRST* capital program in 1999. The State reauthorized unspent appropriations totaling $26.2 billion in FY2011, $23.1 billion in FY2012 and $21.5 billion in FY2013.

The FY2014 capital budget recommends the reauthorization of $18.1 billion in previously appropriated projects. The capital budget is largely funded through the issuance of addition GO Bonds and Build Illinois Bonds. Bond funded projects make up $11.0 billion, or 60.6% of the proposed reappropriations

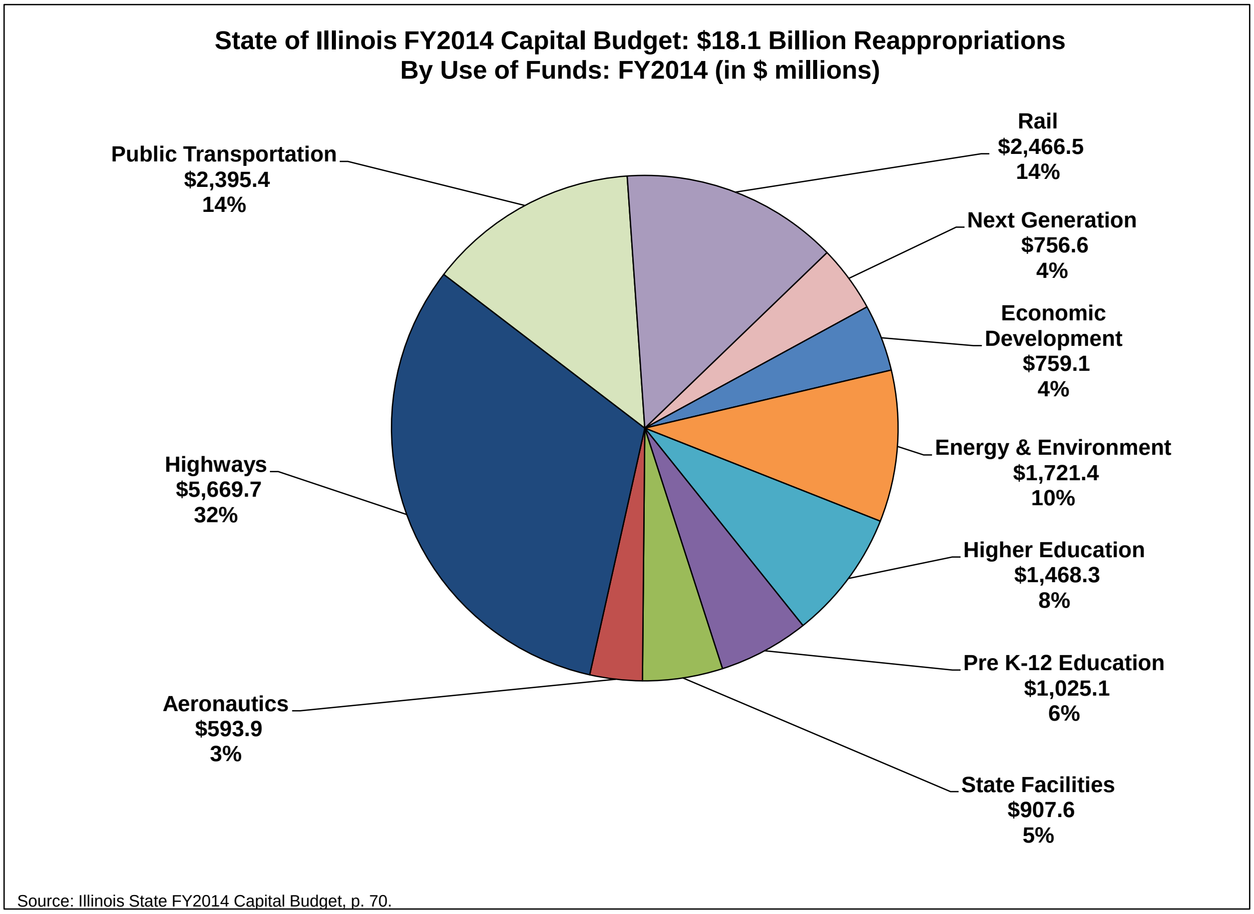
The following chart shows the total proposed capital reappropriations for FY2014 by funding type.



Source: Commission on Government Forecasting and Accountability, *State of Illinois FY2014 Capital Plan Analysis*, April 2013, p. 3.

The largest use of the reappropriated funds is $5.7 billion for highways, followed by the $2.5 for rail and $2.4 billion for public transportation. The FY2014 capital budget includes reappropriation of $1.0 billion for the statewide pre-Kindergarten through 12th grade school construction program and $1.5 billion for projects at public universities.

The following chart shows the proposed reappropriations in FY2014 capital budget by type of project.



Capital Revenues

In 2009 the State approved a package of revenues expected to total between $943 million to $1.2 billion annually to support the new capital borrowing associated with the *Illinois Jobs Now!* capital program. These revenue sources included:[314]

- Statewide legalization and taxation of video poker – $288 to $534 million;
- Expanded sales tax on candy, sweetened beverages and some hygiene products – $65 million;
- Lease of a portion of state lottery operations – $150 million;
- Increased per gallon tax on beer, wine and liquor – $108 million; and
- Increased license and vehicle fees – $332 million.

The proceeds from these sources are deposited in the Capital Projects Fund and used to pay for debt service on new capital bonds and some ongoing capital expenses. The recommended capital budget does not include FY2014 projections for the revenues being generated from these sources or the increase in debt service specifically attributable to the bonds sold to support the *Illinois Jobs Now!* projects.

[314] Public Act 96-0034.

Since FY2010 the revenue generated for the capital budget has lagged far below the original legislative estimates, mostly due to the delay in the management contract and licensing of video poker, the largest source of new revenues. The first legal video gaming machines did not go into operation until October 9, 2012. Initially, 76 communities and four counties took advantage of an opt-out clause in the legislation and the City of Chicago already has a prohibition on video gaming in the city. Without the participation of these governments, the annual revenue from video poker is expected to drop to a range of $106 million to $196 million from the original estimate of $288 million to $534 million.[315]

The following table shows the original revenue estimates for the new sources enacted to fund the *Illinois Jobs Now!* capital borrowing, the actual revenues for FY2010 through FY2012 and the FY2013 revenues as of April 2013.

Capital Projects Fund: Revenues by Source
(in $ millions)

Source	Original Projections	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 YTD
Video Poker Tax	$288 - $534	$ -	$ -	$ -	$ 8.9
Lottery Fund*	$ 150.0	$ 32.9	$ 54.1	$ 65.2	$ -
Sales Tax	$ 65.0	$ 39.0	$ 52.0	$ 52.7	$ 40.5
Liquor Tax	$ 108.0	$ 77.6	$ 105.2	$ 114.8	$ 87.1
Vehicle Related	$ 332.0	$ 117.7	$ 294.6	$ 299.7	$ 215.1
Investment Income and Other	$ -	$ 0.3	$ -	$ 0.1	$ 0.1
Total	**$934 - 1,189**	**$ 267.5**	**$ 505.9**	**$ 532.5**	**$ 351.7**

*Lottery Fund transfer takes place at the end of the fiscal year.

Source: Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2014* , April 2013, pp.10-12.

[315] Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2014*, April 2013, p. 10.

APPENDIX A: STATE OF ILLINOIS AGENCIES BY PURPOSE

This appendix presents the State's grouping of agencies under the Governor according to principal spending activities.[316]

Human Services
Department on Aging
Department of Children and Family Services
Department of Juvenile Justice
Department of Employment Security
Department of Human Rights
Human Rights Commission
Department of Human Services
Illinois Deaf and Hard of Hearing Commission
Illinois Council on Developmental Disabilities
Illinois Guardianship and Advocacy Commission
Department of Public Health
Department of Veterans' Affairs

Healthcare
Department of Healthcare and Family Services

Education
Illinois State Board of Education
Illinois Board of Higher Education
Illinois Community College Board
Illinois Student Assistance Commission

Government Services
Office of the Governor
Civil Service Commission
Procurement Policy Board
Governor's Office of Management and Budget
Capital Development Board
Department of Central Management Services
Department of Revenue
Illinois Gaming Board
Illinois Racing Board
State Employees' Retirement System
Department of the Lottery
Illinois Independent Tax Tribunal

[316] Email communication between the Civic Federation and the Governor's Office of Management and Budget, April 29, 2013.

Economic Development
Department of Agriculture
Department of Commerce and Economic Opportunity
Illinois Commerce Commission
Department of Labor

Public Safety
Department of Corrections
Environmental Protection Agency
Department of Financial and Professional Regulation
Criminal Justice Information Authority
Illinois Educational Labor Relations Board
Illinois Emergency Management Agency
Illinois Labor Relations Board
Illinois Violence Prevention Authority
Illinois Workers' Compensation Commission
Department of Insurance
Law Enforcement Training Standards Board
Department of Military Affairs
Prisoner Review Board
Property Tax Appeal Board
Office of the State Fire Marshal
Department of State Police
Illinois Department of Transportation
State Police Merit Board

Quality of Natural, Cultural and Environmental Resources
Illinois Arts Council
Illinois Historic Preservation Agency
Department of Natural Resources

APPENDIX B: STATE OF ILLINOIS AGENCIES

This appendix presents the classification of State agencies used in the tables on p. 45 of this report.[317]

Governor's Agencies

Office of the Governor
Department on Aging
Department of Agriculture
Department of Central Management Services
Department of Children and Family Services
Department of Commerce and Economic Opportunity
Department of Natural Resources
Department of Juvenile Justice
Department of Corrections
Department of Employment Security
Department of Financial and Professional Regulation
Department of Human Rights
Department of Human Services
Illinois Power Agency
Department of Insurance
Department of Labor
Department of Lottery
Department of Military Affairs
Department of Healthcare and Family Services
Department of Public Health
Department of Revenue
Department of State Police
Department of Transportation
Department of Veterans' Affairs
Illinois Arts Council
Governor's Office of Management and Budget
Capital Development Board
Civil Service Commission
Illinois Commerce Commission
Drycleaner Environmental Response Trust Fund Council
Illinois Deaf and Hard of Hearing Commission
Comprehensive Health Insurance Plan
East St. Louis Financial Advisory Authority
Environmental Protection Agency
Illinois Guardianship and Advocacy Commission
Illinois Historic Preservation Agency
Human Rights Commission
Illinois Criminal Justice Information Authority
Illinois Educational Labor Relations Board

[317] Illinois State FY2014 Budget, Table of Contents. The Governor's Office is included in Governor's Agencies to be consistent with the classification used by the Governor's Office of Management and Budget for purposes of headcount.

Illinois Sports Facilities Authority
Illinois State Toll Highway Authority
Illinois Council on Developmental Disabilities
Illinois Violence Prevention Authority
Illinois Finance Authority
Procurement Policy Board
Illinois Workers' Compensation Commission
Illinois Gaming Board
Law Enforcement Training Standards Board
Metropolitan Pier and Exposition Authority
Prisoner Review Board
Illinois Racing Board
Property Tax Appeal Board
Illinois Independent Tax Tribunal
Southwestern Illinois Development Authority
Illinois Emergency Management Agency
State Employees' Retirement System
Illinois Labor Relations Board
State Police Merit Board
Office of the State Fire Marshal
Upper Illinois River Valley Development Authority
Illinois State Board of Education
Illinois Board of Higher Education
Illinois Community College Board
Illinois Student Assistance Commission

Legislative Agencies
Office of the Auditor General
General Assembly
General Assembly Retirement System
Commission on Government Forecasting and Accountability
Joint Committee on Administrative Rules
Legislative Audit Commission
Legislative Ethics Commission
Legislative Information System
Legislative Printing Unit
Legislative Reference Bureau
Legislative Research Unit
Office of the Architect of the Capitol
Office of the Executive Inspector General
Executive Ethics Commission

Judicial Agencies
Judicial Inquiry Board
Office of the State Appellate Defender
Office of the State's Attorneys Appellate Prosecutor
Supreme Court and Illinois Court System
Supreme Court Historical Preservation Commission
Court of Claims

Elected Officials and Elections
Office of the Lieutenant Governor
Office of the Attorney General
Office of the Secretary of State
Office of the State Comptroller
Office of the State Treasurer
State Board of Elections

Education
Chicago State University
Eastern Illinois University
Governors State University
Northeastern Illinois University
Western Illinois University
Illinois State University
Northern Illinois University
Southern Illinois University
University of Illinois
Illinois Mathematics and Science Academy
State Universities Civil Service System

APPENDIX C: DATA ON FUNDING OF ILLINOIS RETIREMENT SYSTEMS

The table below shows estimates of total unfunded liability and combined funded ratio for the State's five retirement systems from FY2013 to FY2045, based on projections as of June 30, 2012 by the systems' actuaries.

It should be noted that the numbers in the table reflect asset smoothing, rather than the market value of assets. Since FY2009, State law has required that the actuarial value of assets be based on asset smoothing, in which unexpected gains or losses in any fiscal year are recognized over five fiscal years.[318] The market value of assets is more volatile than the smoothed value, but market values provide a more realistic view of the systems' actual financial position at the time of measurement.

State of Illinois Retirement Systems: Projected Unfunded Liaibility and Funded Ratio* FY2013-FY2045 (in $ millions)

Fiscal Year	Unfunded Liability	Combined Funded Ratio	Fiscal Year	Unfunded Liability	Combined Funded Ratio
FY2013	$ 100,828	39.0%	FY2030	$ 133,385	52.9%
FY2014	$ 102,708	40.4%	FY2031	$ 133,084	54.1%
FY2015	$ 104,942	41.4%	FY2032	$ 132,309	55.3%
FY2016	$ 108,752	41.6%	FY2033	$ 131,010	56.6%
FY2017	$ 111,526	42.3%	FY2034	$ 127,837	58.4%
FY2018	$ 114,199	43.0%	FY2035	$ 123,973	60.4%
FY2019	$ 116,789	43.7%	FY2036	$ 119,366	62.4%
FY2020	$ 119,296	44.4%	FY2037	$ 113,966	64.7%
FY2021	$ 121,686	45.1%	FY2038	$ 107,714	67.0%
FY2022	$ 123,936	45.8%	FY2039	$ 100,558	69.6%
FY2023	$ 126,005	46.6%	FY2040	$ 92,451	72.4%
FY2024	$ 127,888	47.3%	FY2041	$ 83,304	75.3%
FY2025	$ 129,552	48.1%	FY2042	$ 73,040	78.5%
FY2026	$ 130,968	49.0%	FY2043	$ 61,598	82.0%
FY2027	$ 132,064	49.9%	FY2044	$ 48,890	85.8%
FY2028	$ 132,843	50.9%	FY2045	$ 34,747	90.0%
FY2029	$ 133,296	51.9%			

*Values reflect asset smoothing rather than market value of assets.

Source: Commission on Government Forecasting and Accountability, *Special Pension Briefing* , November 2012, p. 7.

[318] Public Act 96-0043.

APPENDIX D: TOTAL DEBT SERVICE

The following table shows the total debt service for all outstanding GO capital purpose bonds and GO pension bonds including principle and interest owed.

State of Illinois Total Debt Service: GO Capital Bonds and GO Pension Bonds Total Principal and Interest (in $ thousands)			
Fiscal Year	**Capital GO Bonds**	**Pension GO Bonds**	**Total Debt Service**
2013	$ 1,408,595	$ 1,560,951	**$ 2,969,546**
2014	$ 1,459,192	$ 1,634,080	**$ 3,093,272**
2015	$ 1,425,839	$ 1,797,883	**$ 3,223,722**
2016	$ 1,380,179	$ 1,356,454	**$ 2,736,633**
2017	$ 1,309,818	$ 1,647,338	**$ 2,957,156**
2018	$ 1,239,601	$ 1,618,616	**$ 2,858,217**
2019	$ 1,167,671	$ 1,586,106	**$ 2,753,776**
2020	$ 1,110,606	$ 674,550	**$ 1,785,156**
2021	$ 1,053,642	$ 713,413	**$ 1,767,055**
2022	$ 984,957	$ 749,800	**$ 1,734,757**
2023	$ 947,372	$ 783,713	**$ 1,731,085**
2024	$ 866,229	$ 840,150	**$ 1,706,379**
2025	$ 769,849	$ 892,200	**$ 1,662,049**
2026	$ 749,854	$ 915,425	**$ 1,665,279**
2027	$ 632,104	$ 936,100	**$ 1,568,204**
2028	$ 615,135	$ 979,225	**$ 1,594,360**
2029	$ 589,823	$ 1,018,525	**$ 1,608,348**
2030	$ 510,426	$ 1,079,000	**$ 1,589,426**
2031	$ 444,678	$ 1,134,375	**$ 1,579,053**
2032	$ 366,703	$ 1,159,650	**$ 1,526,353**
2033	$ 348,988	$ 1,156,100	**$ 1,505,088**
2034	$ 363,257	$ -	**$ 363,257**
2035	$ 259,173	$ -	**$ 259,173**
2036	$ 147,170	$ -	**$ 147,170**
2037	$ 93,073	$ -	**$ 93,073**
2038	$ 33,673	$ -	**$ 33,673**
Total	**$ 20,277,609**	**$ 24,233,652**	**$ 61,662,963**

State of Illinois, Series A of April 2013 and Taxable Series B of April 2013, *Official Statement* , April 2, 2013, p. 88.