



**THE FINAL FY2006  
ILLINOIS STATE BUDGET:  
A CIVIC FEDERATION ISSUE BRIEF**

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## THE FINAL FY2006 ILLINOIS STATE BUDGET

This issue brief presents an overview of the final State of Illinois FY2006 budget as approved by the General Assembly.

The final operating budget was \$43.57 billion, approximately \$13.3 million (0.03%) more than the Governor's original budget proposal. Some of the pension funding reforms for teachers and university employers originally proposed by the Governor were adopted, but little progress was made in limiting annual benefit increases to the rate of inflation. Most disappointing was the \$2.3 billion reduction in actual contributions to the pension funds over the next two years. This funding "holiday" will cost the State at least \$4.7 billion more in expenses and reduce liabilities by \$38.6 billion instead of \$55.0 billion over 40 years.

### Status of Major FY2006 Budget Issues (Non-Pension)

STATUS OF MAJOR FY2006 STATE BUDGET ISSUES

| GOVERNOR'S ORIGINAL BUDGET  | CIVIC FEDERATION POSITION  | FINAL BUDGET APPROVED  |
|---|--|--|
| No increase in sales or income tax  | Strong support. Illinois must evaluate performance of current budget and prioritize spending before it considers revenue increases.                        | No increase in sales or income tax   |
| Eliminating the sales tax exemption for prewritten, licensed software to be used to fund mass transit | Opposed because implementation issues had not been fully resolved and therefore the proposal was unworkable in the time frame proposed                     | Not approved   |
| Funding for CTA and other mass transit agencies   | 1) Support for mass transit funding after agencies enacted cost cutting & revenue enhancements<br>2) Opposition to use of software tax as a funding source | CTA provided with \$54 million to fill budget gap. RTA subsequently voted to appropriate \$7.8 million in discretionary funds to PACE. |
| Increase Education Funding by \$140 million to be funded by a sweep of special purpose fund surpluses | No position on education funding increase but supported fund surplus sweeps  | Approved a \$313 million increase<br>Includes \$215 million in General State Aid increase  |
| 75 cent per pack cigarette tax increase to fund capital budget  | No position  | Not approved   |

## Final Appropriated General Fund Revenues by Source

| STATE OF ILLINOIS FY2006 GENERAL FUND REVENUES BY SOURCE (\$Millions)<br>GOVERNOR'S ORIGINAL PROPOSAL V. BUDGET PASSED BY GENERAL ASSEMBLY |                    |                            |               |              |
|--|--------------------|----------------------------|---------------|--------------|
| REVENUE SOURCE   | GOVERNOR'S REQUEST | PASSED BY GENERAL ASSEMBLY | \$ DIFF       | % DIFF       |
| Net Income Taxes   |                    |                            |               |              |
| Personal   | \$ 8,120           | \$ 8,235                   | \$ 115        | 1.42%        |
| Corporate  | \$ 1,161           | \$ 1,266                   | \$ 105        | 9.04%        |
| Sales Taxes  | \$ 6,778           | \$ 6,873                   | \$ 95         | 1.40%        |
| Public Utility Taxes   | \$ 1,096           | \$ 1,069                   | \$ (27)       | -2.46%       |
| Cigarette Taxes  | \$ 400             | \$ 400                     | \$ -          | 0.00%        |
| Liquor Taxes   | \$ 146             | \$ 150                     | \$ 4          | 2.74%        |
| Inheritance Taxes  | \$ 255             | \$ 285                     | \$ 30         | 11.76%       |
| Insurance Taxes  | \$ 366             | \$ 327                     | \$ (39)       | -10.66%      |
| Corporate Franchise Taxes/Fees   | \$ 194             | \$ 183                     | \$ (11)       | -5.67%       |
| Interest   | \$ 45              | \$ 65                      | \$ 20         | 44.44%       |
| Cook County IGT Transfer   | \$ 340             | \$ 340                     | \$ -          | 0.00%        |
| Other  | \$ 436             | \$ 508                     | \$ 72         | 16.51%       |
| <b>Total State Sources</b>   | <b>\$ 19,337</b>   | <b>\$ 19,701</b>           | <b>\$ 364</b> | <b>1.88%</b> |
| Federal Revenues   | \$ 4,834           | \$ 4,791                   | \$ (43)       | -0.89%       |
| Lottery  | \$ 628             | \$ 628                     | \$ -          | 0.00%        |
| Riverboat Gaming Taxes/Fees  | \$ 696             | \$ 707                     | \$ 11         | 1.58%        |
| Chargebacks  | \$ 916             | \$ 844                     | \$ (72)       | -7.86%       |
| Other Recurring Revenues   | \$ 255             | \$ -                       | \$ (255)      | -100.00%     |
| <b>GRAND TOTAL</b>   | <b>\$ 26,666</b>   | <b>\$ 26,671</b>           | <b>\$ 5</b>   | <b>0.02%</b> |

Sources: FY2006 State of Illinois Budget, Governor's Office of Management & Budget.

## Pension Funding Changes

The first exhibit lists the Governor's FY2006 original pension funding proposals as well as new proposals that were advanced during the legislative session, the final action taken by the General Assembly and the Civic Federation's position on these proposals.

| GOVERNOR'S ORIGINAL BUDGET   | FINAL ACTION BY GENERAL ASSEMBLY   | CIVIC FEDERATION POSITION |
|--|------------------------------------|---------------------------|
| <b><i>Governor's Original Proposals</i></b>  |                                    |                           |
| Cap End of Year Salary Increases to 3%   | 6% annual Cap Adopted              | Support                   |
| Eliminate SURS Money Purchase Option (New Hires)                                       | Approved                           | Support                   |
| Recalculate Money Purchase Interest Rate to Reflect Long-Term Rate of Return, not 9%   | Authorized Comptroller to set rate | Support                   |
| No New Benefits w/o Funding  | Approved                           | Support                   |
| Limit Alternative Formula Benefits (New Hires)   | Approved                           | Support                   |
| Limit Automatic Increases to CPI   | Not Approved                       | Support                   |
| Change Retirement Age (New Hires)  | Not Approved                       | Support                   |
| <b><i>New Proposals</i></b>  |                                    |                           |
| Defer Pension Contributions by \$2.3 Billion over 2 Years                              | Approved                           | Strongly Oppose           |
| Create Task Force to Study Pension Reform  | Approved                           | No Position               |
| Create Cost Neutral Early Retirement Program Paid for by Local Employers/Beneficiaries | Approved                           | No Position               |
| Eliminate Lump Sum Awards for Unearned Sick Pay to Boost Pensions                      | Approved                           | No Position               |

### *Impact on FY2006-FY2007 State Budgets*

The General Assembly approved legislation (P.A. 94-0004) authorizing reductions in the State contributions from the originally certified amounts to the 5 State retirement systems in FY2006 and FY2007 totaling \$2.3 billion. The next exhibit shows the difference between the certified amount for each State pension fund and the amount to be appropriated in FY2006 and FY2007.

| <b>FY2006 &amp; FY2007 CERTIFIED CONTRIBUTIONS<br/>VS. FINAL GENERAL ASSEMBLY APPROPRIATIONS<br/>(In Millions of Dollars)</b> |                                    |                         |                   |                                    |                         |                   |                                       |                            |
|---|------------------------------------|-------------------------|-------------------|------------------------------------|-------------------------|-------------------|---------------------------------------|----------------------------|
| <b>System</b>   | <b>FY2006</b>                      |                         |                   | <b>FY2007</b>                      |                         |                   | <b>Total 2-Year<br/>Contributions</b> | <b>Total<br/>Reduction</b> |
|   | <b>Certified<br/>Contributions</b> | <b>P.A.<br/>94-0004</b> | <b>Difference</b> | <b>Certified<br/>Contributions</b> | <b>P.A.<br/>94-0004</b> | <b>Difference</b> |                                       |                            |
| <b>TRS</b>  | \$ 1,058.5                         | \$ 534.6                | \$ 523.9          | \$ 1,233.1                         | \$ 738.0                | \$ 495.1          | \$ 2,291.6                            | \$ 1,019.0                 |
| <b>SERS</b>   | \$ 690.3                           | \$ 203.8                | \$ 486.5          | \$ 832.0                           | \$ 344.2                | \$ 487.8          | \$ 1,522.3                            | \$ 974.3                   |
| <b>SURS</b>   | \$ 324.9                           | \$ 166.6                | \$ 158.3          | \$ 391.9                           | \$ 252.1                | \$ 139.8          | \$ 716.8                              | \$ 298.1                   |
| <b>JRS</b>  | \$ 38.0                            | \$ 29.2                 | \$ 8.8            | \$ 44.5                            | \$ 35.2                 | \$ 9.3            | \$ 82.5                               | \$ 18.1                    |
| <b>GARS</b>   | \$ 5.5                             | \$ 4.2                  | \$ 1.3            | \$ 6.3                             | \$ 5.2                  | \$ 1.1            | \$ 11.8                               | \$ 2.4                     |
| <b>Total</b>  | <b>\$ 2,117.2</b>                  | <b>\$ 938.4</b>         | <b>\$ 1,178.8</b> | <b>\$ 2,507.8</b>                  | <b>\$ 1,374.7</b>       | <b>\$ 1,133.1</b> | <b>\$ 4,625.0</b>                     | <b>\$ 2,311.9</b>          |

Sources: Commission on Government Forecasting and Accountability

### *Fiscal Impact of Pension Funding Changes to FY2045*

The actuaries of the General Assembly's Commission on Government Forecasting and Accountability (CGFA) and the 5 retirement systems have each prepared estimates of the long-term economic impact of the FY2006 pension funding reforms. The results of those analyses are shown below.

The CGFA estimates that the final pension program approved for FY2006 will cost the State an additional \$4.7 billion more and reduce actuarial liabilities by \$38.6 billion over 40 years. The retirement systems' actuaries estimate that \$6.8 billion more in costs will be incurred and the liabilities will be reduced by \$44.6 billion. The State originally projected that pension liabilities would be reduced by approximately \$55.0 billion if all of the Governor's proposed reforms were adopted.

| <b>Estimated Impact of P.A. 94-0004</b>                      |            |             |             |            |             |              |
|--|------------|-------------|-------------|------------|-------------|--------------|
| <b>Total Projected State Contributions for FY2006-FY2045</b> |            |             |             |            |             |              |
| <b>Prepared by CGFA (\$Millions)</b>                         |            |             |             |            |             |              |
| <b>State Contributions</b>                                   | <b>TRS</b> | <b>SERS</b> | <b>SURS</b> | <b>JRS</b> | <b>GARS</b> | <b>TOTAL</b> |
| <b>Pre P.A. 94-0004</b>                                      | \$ 160,302 | \$ 68,065   | \$ 61,184   | \$ 6,538   | \$ 862      | \$ 296,951   |
| <b>P.A. 94-0004</b>  | \$ 155,507 | \$ 78,068   | \$ 60,531   | \$ 6,654   | \$ 877      | \$ 301,637   |
| <b>Difference</b>  | \$ (4,795) | \$ 10,003   | \$ (653)    | \$ 116     | \$ 15       | \$ 4,686     |
| <b>FY2045 Liability Reduction</b>                            | \$ 26,265  | \$ 667      | \$ 11,690   | \$ -       | \$ -        | \$ 38,622    |

Source: Commission on Government Forecasting and Accountability. August 2005.

| <b>Estimated Impact of P.A. 94-0004</b>                      |            |             |             |            |             |              |
|--|------------|-------------|-------------|------------|-------------|--------------|
| <b>Total Projected State Contributions for FY2006-FY2045</b> |            |             |             |            |             |              |
| <b>Prepared by Retirement Systems (\$Millions)</b>           |            |             |             |            |             |              |
| <b>State Contributions</b>                                   | <b>TRS</b> | <b>SERS</b> | <b>SURS</b> | <b>JRS</b> | <b>GARS</b> | <b>TOTAL</b> |
| <b>Pre P.A. 94-0004</b>                                      | \$ 156,715 | \$ 65,340   | \$ 60,688   | \$ 6,538   | \$ 862      | \$ 290,143   |
| <b>P.A. 94-0004</b>  | \$ 152,550 | \$ 75,928   | \$ 60,914   | \$ 6,654   | \$ 877      | \$ 296,923   |
| <b>Difference</b>  | \$ (4,165) | \$ 10,588   | \$ 226      | \$ 116     | \$ 15       | \$ 6,780     |
| <b>FY2045 Liability Reduction</b>                            | \$ 34,322  | \$ 675      | \$ 9,655    | \$ -       | \$ -        | \$ 44,652    |

Source: Commission on Government Forecasting and Accountability. August 2005.

### **Final Appropriations**

- The FY2006 operating budget approved by the General Assembly was \$43.57 billion, or approximately \$13.3 million larger than the budget originally proposed by Governor Blagojevich.
- The largest dollar amount change made by the General Assembly (except for the pension fund reductions) was a 2.45% or \$198.8 million increase in the appropriation for the State Board of Education. This increased that appropriation from over \$8.8 billion to \$9.0 billion.

**STATE OF ILLINOIS FY2006 OPERATING APPROPRIATIONS BY AGENCY (\$000s)  
GOVERNOR'S ORIGINAL PROPOSAL V. BUDGET PASSED BY GENERAL ASSEMBLY**

| AGENCY   | PASSED BY             |                       |                     |               |
|--|-----------------------|-----------------------|---------------------|---------------|
|  | GOVERNOR'S<br>REQUEST | GENERAL<br>ASSEMBLY   | \$ DIFF             | % DIFF        |
| Legislative Agencies                               | \$ 87,971             | \$ 92,195             | \$ 4,224            | 4.80%         |
| Judicial Agencies                                  | \$ 417,057            | \$ 394,953            | \$ (22,104)         | -5.30%        |
| Elected Officials & Elections                      | \$ 2,358,987          | \$ 2,426,208          | \$ 67,221           | 2.85%         |
| <b>Governor's Agencies</b>                         |                       |                       |                     |               |
| Healthcare and Family Services                     | \$ 12,339,116         | \$ 12,255,826         | \$ (83,290)         | -0.68%        |
| Human Services                                     | \$ 5,296,932          | \$ 5,247,440          | \$ (49,492)         | -0.93%        |
| Healthcare and Family Services Group Insurance     | \$ 2,945,526          | \$ 2,930,916          | \$ (14,610)         | -0.50%        |
| Transportation                                     | \$ 2,039,125          | \$ 2,091,473          | \$ 52,348           | 2.57%         |
| Corrections  | \$ 1,335,254          | \$ 1,273,519          | \$ (61,735)         | -4.62%        |
| Children & Family Services                         | \$ 1,304,190          | \$ 1,289,709          | \$ (14,481)         | -1.11%        |
| Central Management Services                        | \$ 1,035,441          | \$ 1,047,990          | \$ 12,549           | 1.21%         |
| Revenue  | \$ 1,007,098          | \$ 998,151            | \$ (8,947)          | -0.89%        |
| Commerce & Economic Opportunity                    | \$ 666,197            | \$ 687,797            | \$ 21,600           | 3.24%         |
| Illinois Emergency Management Agency               | \$ 647,494            | \$ 646,357            | \$ (1,137)          | -0.18%        |
| Aging  | \$ 446,315            | \$ 447,983            | \$ 1,668            | 0.37%         |
| State Police                                       | \$ 383,131            | \$ 362,799            | \$ (20,332)         | -5.31%        |
| All Others   | \$ 2,366,359          | \$ 2,372,223          | \$ 5,864            | 0.25%         |
| <b>Subtotal Governor's Agencies</b>                | <b>\$ 31,812,178</b>  | <b>\$ 31,652,183</b>  | <b>\$ (159,995)</b> | <b>-0.50%</b> |
| <b>Elementary and Secondary Education</b>          |                       |                       |                     |               |
| State Board of Education                           | \$ 8,128,686          | \$ 8,327,481          | \$ 198,795          | 2.45%         |
| Teachers' Retirement System                        | \$ 732,135            | \$ 675,162            | \$ (56,973)         | -7.78%        |
| <b>Subtotal Elementary and Secondary Education</b> | <b>\$ 8,860,821</b>   | <b>\$ 9,002,643</b>   | <b>\$ 141,822</b>   | <b>1.60%</b>  |
| <b>Subtotal Higher Education</b>                   | <b>\$ 2,626,747</b>   | <b>\$ 2,622,552</b>   | <b>\$ (4,195)</b>   | <b>-0.16%</b> |
| <b>REVOLVING FUNDS</b>                             | <b>\$ (2,494,323)</b> | <b>\$ (2,507,935)</b> | <b>\$ (13,612)</b>  | <b>0.55%</b>  |
| <b>TOTAL BEFORE COST SAVING INITIATIVES</b>        | <b>\$ 43,669,434</b>  | <b>\$ 43,682,797</b>  | <b>\$ 13,363</b>    | <b>0.03%</b>  |
| <b>Governor's Cost Saving Initiatives</b>          |                       |                       |                     |               |
| Governor's Procurement Initiative                  | \$ (13,442)           | \$ (13,442)           | \$ -                | 0.00%         |
| Governor's Information Technology Initiative       | \$ (26,048)           | \$ (26,048)           | \$ -                | 0.00%         |
| Governor's Functional Consolidation Initiative     | \$ (42,600)           | \$ (42,600)           | \$ -                | 0.00%         |
| Governor's Targeted Headcount Reduction Initiative | \$ (26,368)           | \$ (26,368)           | \$ -                | 0.00%         |
| <b>Subtotal Governor's Cost Saving Initiatives</b> | <b>\$ (108,458)</b>   | <b>\$ (108,458)</b>   | <b>\$ -</b>         | <b>0.00%</b>  |
| <b>GRAND TOTAL</b>                                 | <b>\$ 43,560,977</b>  | <b>\$ 43,574,339</b>  | <b>\$ 13,362</b>    | <b>0.03%</b>  |

Source: State of Illinois Governor's Office of Management and Budget