The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

STATE OF ILLINOIS FY2015 RECOMMENDED OPERATING BUDGET:

Analysis and Recommendations

May 13, 2014

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **opposes** Governor Pat Quinn's recommended FY2015 budget for the State of Illinois because it uses revenue from extending the 2011 temporary income tax increase to raise expenditures and does not stabilize the State's finances by significantly reducing the massive backlog of unpaid bills.

In particular, the Civic Federation **opposes** the Governor's plan to spend $1.3 billion on a new homeowners' grant program that would replace the State's existing property tax credit on individual income taxes. Despite the proposed extension of higher income tax rates, the additional spending would require the State to borrow money to balance the operating budget.

While opposing Governor Quinn's $38.1 billion General Funds spending plan, the Federation is **encouraged** that the Governor presented a budget that addresses the State's looming fiscal cliff rather than recommending unrealistic budget cuts that are not based on specific policy proposals. Under existing law, the 2011 income tax rate increases are due to be phased out beginning in January 2015, midway through the upcoming fiscal year, resulting in a significant loss in revenue.[1]

In our recent State budget roadmap report for FY2015, the Federation found that the steep rollback in income tax rates would destabilize Illinois' already weak financial condition.[2] State spending increases in the past five years have been driven by statutorily required State contributions to its drastically underfunded retirement systems. After years of debate, major pension changes were enacted in December 2013, but they will not bring budgetary relief until FY2016 at the earliest.[3]

The Federation recommended that the 2011 tax rate increases be extended for one year and then scaled back by 20.0% over the following three years and that the income tax base should be broadened to include federally taxable retirement income. The Federation urged that the additional revenues be used to allow modest growth in agency spending while eliminating the unpaid bill backlog, providing relief to local governments and building up reserves to cushion against future economic downturns.

The Federation **supports** the Governor's publication of a five-year budget plan, a first step toward long-term financial planning for the State. However, the Federation is **concerned** that the policy choices made in the FY2015 budget and beyond are projected to leave a substantial backlog of bills at the end of the five-year period and that no strategy is detailed to implement a meaningful rainy day fund.

The Civic Federation offers the following key findings on the Governor's recommended FY2015 budget:

- Projected FY2015 General Funds revenues total $37.9 billion, an increase of $1.2 billion from FY2014. If individual income tax rates were rolled back as scheduled from 5.0% to 3.75% and corporate income tax rates were rolled back from 7.0% to 5.25%, revenues would decline by $1.8 billion from FY2014;
- The proposed elimination of the current property tax credit increases projected FY2015 General Funds revenues by an estimated $560 million;
- Projected FY2015 General Funds revenues are reduced by $450 million due to the statutorily required diversion of individual income taxes to provide additional resources for education and human services;

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[1] The State of Illinois' fiscal year begins on July 1 and ends on June 30.

[2] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014.

[3] Public Act 98-0599, enacted on December 5, 2013.

- Proposed FY2015 General Funds spending totals $38.1 billion, up $2.2 billion, or 6.3%, from FY2014;
- FY2015 expenditures include $1.3 billion for the proposed homeowners' grant program, which would provide $500 a year to residential property owners. The net cost of the program, after accounting for increased revenues due to the elimination of the current property tax credit, would be $715 million;
- An initial operating deficit of $170 million would be closed by borrowing $650 million from accounts outside of the General Funds. The remainder of the interfund borrowing would be used to reduce the backlog of unpaid bills by $480 million; and
- The total backlog of unpaid bills would decline from roughly $5.4 billion at the end of FY2014 to $5.1 billion at the end of FY2015. The backlog would stand at $2.2 billion at the end of FY2019, according to the Governor's five-year plan.

The Civic Federation **opposes** the following aspects of the Governor's recommended FY2015 budget:

- The use of additional revenue generated from the extension of the tax rate increases to raise spending rather than to reduce the backlog of unpaid bills;
- The replacement of the property tax credit with a new homeowners' grant program, at a net cost of $715 million;
- The plan to borrow $650 million from accounts outside of the General Funds in order to close the operating deficit and reduce the backlog of unpaid bills; and
- The statutorily required diversion from General Funds of approximately $450 million in revenue to be used to support education and human services.

The Civic Federation **supports** the following aspects of the Governor's recommended FY2015 budget:

- The focus on avoiding the fiscal cliff in FY2015 that would result from the partial rollback of income tax rate increases enacted in 2011;
- The continuation of efforts to transform the State's Medicaid program by moving toward managed care, by working to serve more elderly and disabled recipients in community settings rather than in institutions and by making the application process more efficient through use of technology; and
- The publication of a five-year blueprint for the State that shows projected revenues and spending priorities.

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

- Implement a comprehensive long-term financial plan to ensure operating budgets are balanced, eliminate the backlog of unpaid bills, provide achievable spending limits, set aside reserves for an adequate rainy day fund, avoid drastic revenue cliffs, provide a sustainable revenue base and provide assistance for local governments;
- Repeal the statutory diversions of revenues from General Funds to support education and human services because they reduce the transparency of the budget process;
- Develop a consensus estimate of the State's total backlog of unpaid bills;
- Develop a consensus forecast of General Funds revenues before the publication of the Governor's annual budget recommendation;
- Improve the budget book by providing more information on Medicaid, group insurance and personnel; and
- Consolidate Special State Funds to provide more flexibility in allocating resources.

CIVIC FEDERATION POSITION AND RECOMMENDATIONS

The Civic Federation **opposes** Governor Pat Quinn's recommended FY2015 budget for the State of Illinois because it uses revenue from extending the 2011 temporary income tax increase to raise expenditures and does not stabilize the State's finances by significantly reducing the massive backlog of unpaid bills.

In particular, the Civic Federation **opposes** the Governor's plan to spend $1.3 billion on a new homeowners' grant program that would replace the State's existing property tax credit on individual income taxes. Despite the proposed extension of higher income tax rates, the additional spending would require the State to borrow money to balance the operating budget.

While opposing Governor Quinn's $38.1 billion General Funds spending plan, the Federation is **encouraged** that the Governor presented a budget that addresses the State's looming fiscal cliff rather than recommending unrealistic budget cuts that are not based on specific policy proposals. Under existing law, the 2011 income tax rate increases are due to be phased out beginning in January 2015, midway through the upcoming fiscal year, resulting in a significant loss in revenue.[4]

In our recent State budget roadmap report for FY2015, the Federation found that the steep rollback in income tax rates would destabilize Illinois' already weak financial condition.[5] State spending increases in the past five years have been driven by statutorily required State contributions to its drastically underfunded retirement systems. After years of debate, major pension changes were enacted in December 2013, but they will not bring budgetary relief until FY2016 at the earliest.[6]

The Federation recommended that the 2011 tax rate increases be extended for one year and then scaled back by 20% over the following three years and that the income tax base should be broadened to include federally taxable retirement income. The Federation urged that the additional revenues be used to allow modest growth in agency spending while eliminating the unpaid bill backlog, providing relief to local governments and building up reserves to cushion against future economic downturns.

The Federation **supports** the Governor's publication of a five-year budget plan, a first step toward long-term financial planning for the State. However, the Federation is **concerned** that the policy choices made in the FY2015 budget and beyond are projected to leave a substantial backlog of bills at the end of the five-year period and that no strategy is detailed to implement a meaningful rainy day fund.

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[4] The State of Illinois' fiscal year begins on July 1 and ends on June 30.
[5] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014.
[6] Public Act 98-0599, enacted on December 5, 2013.

Issues the Civic Federation Opposes

The Civic Federation opposes the following proposals in the Governor's FY2015 recommended budget.

Extending Income Tax Increases to Fund Increased Spending

The Civic Federation opposes the Governor's recommended FY2015 budget even though it extends the temporary income tax increase to avoid a revenue cliff because the additional resources are used to increase spending rather than to stabilize the State's finances. Even after taking into account the additional operating revenues available due to the higher income tax rates, the Governor's proposal relies on borrowing for operations to balance the budget and does not set aside operating resources to significantly pay down the State's backlog of unpaid bills.

The Governor's recommended FY2015 budget proposes extending the higher income tax rates, which are currently scheduled to expire on January 1, 2015, midway through the fiscal year. The individual income tax rate was increased to 5.0% from 3.0% and is scheduled to partially roll back to 3.75%. The corporate income tax was increased to 7.0% from 4.8% and is scheduled to partially roll back to 5.25%.

If the rates are allowed to decrease, the State would experience a loss of $1.8 billion in General Funds revenues in FY2015 compared to FY2014.[7] Instead, the Governor's recommended FY2015 budget shows an increase of $1.2 billion in General Funds revenues from FY2014.[8] However, General Funds expenditures increase by $2.2 billion, including a $975 million increase in net appropriations spent and a new homeowners' grant program that will cost the State $1.3 billion. Despite the higher income tax rates and $560 million in additional funding related to eliminating the existing Illinois property tax credit, the recommended FY2015 budget shows an initial operating deficit of $170 million. The Governor proposes closing the budget gap by borrowing $650 million from funds outside of the General Funds. The borrowed funds would be repaid over the next two fiscal years, pushing current operating expenses into future years.

The Governor's budget proposes using the remaining $480 million of borrowed funds to pay down a portion of the State's $5.4 billion backlog of unpaid bills. However, the choice to increase spending prevents the State from using current operating revenues to more significantly address these accumulated costs from prior fiscal years. The State has substantially reduced its unpaid bills by controlling spending and using operating resources to partially pay down the backlog in each of the last two fiscal years. As recently as the end of FY2012, the backlog of unpaid bills totaled $8.8 billion. Until these unpaid costs are completely eliminated, the State will not have fully recovered from the financial crisis that caused the unpaid bills to skyrocket beginning in FY2009.

Although the Governor's recommended five-year projection shows relatively stable future operating budgets, the Civic Federation is concerned that policy choices made in FY2015 and beyond to increase spending and decrease available revenues would prevent the State from fully paying down its backlog of unpaid bills. According to the recommended forecast, $2.2 billion of bills will remain at the end of FY2019. The Civic Federation believes that the State's focus over the next several years must be on policies that will allow it to eliminate its bill backlog.

[7] Illinois State FY2015 Budget, p. 2-72.
[8] Illinois State FY2015 Budget, p. 2-22.

Replacing the Illinois Property Tax Credit with a New Homeowners' Grant

The largest new expenditure in the Governor's FY2015 budget is a proposed $500 grant to all residential property owners who have paid local property taxes on their primary residence. The program is estimated to cost the State a total of $1.3 billion annually.

Currently, the State provides an income tax credit for residential homeowners equal to 5.0% of the property taxes paid to local governments on their primary residence. It is estimated that this credit would reduce the State's income tax receipts by a total of $560 million in FY2015.

Although eliminating the current credit leads to a corresponding increase in total General Funds revenues of $560 million, the budget includes a General Funds transfer of $1.3 billion to a "Property Tax Relief Fund" that would be used to establish the new homeowners' grant program. The net increase in State cost due to the change would total $715 million annually.

The Civic Federation opposes the Governor's proposal to replace the existing property tax credit with a new $500 grant to residential homeowners because it is unaffordable and takes revenues from the income tax extension that should be prioritized for stabilizing the State's financial condition.

The State does not collect property taxes, so these payments cannot be considered property tax rebates or property tax relief. The existing property tax credit is nonrefundable, meaning it can only be used to reduce income taxes owed to the State and cannot be collected for any amount above the total individual tax liability. In contrast, new grants would be made regardless of whether the homeowner owes State income taxes, which adds to the cost of the new program. It is also possible the grant would be taxed by the federal and State governments as part of the calculation of homeowners' individual income tax liabilities.

In his budget address, Governor Quinn likened the new homeowners' grant proposal to a previous property tax relief policy offered by former Governor Jim Edgar.[9] However, Governor Edgar's proposal increased funding for education in exchange for requiring school districts to reduce their property tax levies by a corresponding amount. The current proposal does not include any such revenue swap and would not affect the amount of property taxes paid by homeowners.

Interfund Borrowing Plan

The Civic Federation opposes the Governor's interfund borrowing proposal because it covers increased spending in the FY2015 General Funds budget and pushes current operating expenses into future fiscal years.

Total spending in the Governor's recommended FY2015 budget exceeds General Funds operating revenues by $170 million. The budget proposes borrowing $650 million from Special State Funds to eliminate the budget gap and using the remaining $480 million to pay down the State's backlog of unpaid bills, which are still expected to total $5.1 billion at the end of FY2015. Without the borrowed funds, the State's backlog of bills would not be reduced from $5.4 billion at the end of FY2014 and would likely grow by the amount of the operating deficit.

[9] State of Illinois, Office of the Governor, "Securing Illinois' Financial Future: Governor Pat Quinn's Fiscal Year 2015 Budget Address," March 26, 2014, p. 4.

There are approximately 550 Special State Funds that are intended for designated purposes outside of General Funds operations.[10] These accounts receive revenues through designated fees, grants or payments from other governments. If the interfund borrowing is approved by the General Assembly for FY2015, this would be the second time Governor Pat Quinn will have used interfund borrowing to shore up the General Funds budget since taking office in 2009.

In FY2011 the General Assembly authorized the Governor to borrow from Special State funds to pay for its General Funds operating costs.[11] The State had transferred excess balances out of these funds to pay for operations in the past, a practice known as fund sweeps, but FY2011 was the first time the State was required to repay the amounts taken from the funds. The State was also required to reimburse Special State Funds for any interest that would have otherwise accrued or pay any penalties incurred due to a lack of funds in the accounts. The cost of interfund borrowing in FY2011 was relatively low, totaling only 0.17% in interest paid. However, by using borrowed funds to provide for General Funds operations, the State pushed FY2011 operating liabilities into future years, increasing the total operating expenses in FY2012 and FY2013. Borrowed funds are one-time resources that create gaps in future operating budgets and must be replaced by additional borrowing, budget cuts or revenues in future years.

According to the Governor's budget office, the $650 million borrowed in FY2015 would be repaid during the next two years in amounts of $325 million. The estimated cost of interest and penalties associated with the borrowing are not included in the budget or five-year projection.

Although borrowing from the balances in Special State Funds is a low cost alternative to accessing transitional capital markets, this option should be reserved for financial emergencies and not to compensate for increased spending while pushing the State's regular General Funds operating costs into future fiscal years.

Revenue Diversions from General Funds

Beginning on February 1, 2015, State law requires that a specific share of individual income tax revenues be diverted from General Funds to provide additional funding for education and human services. This requirement is contained in a little-noticed provision of the 2011 law that temporarily increased income tax rates.[12]

Currently all of the individual income taxes collected by the State are deposited into General Funds, with one exception. A share of individual income tax revenues is diverted into a separate fund—the Income Tax Refund Fund—to pay income tax refunds. The remaining net revenues are deposited into General Funds.

Under the new requirement, a portion of net revenues will be diverted to two new funds: the Fund for the Advancement of Education and the Commitment to Human Services Fund. Each of the new funds will receive 1/30 (about 3.33%) of net individual income tax revenues annually through FY2024; in February 2025 the share increases to 1/26 (about 3.85%).

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[10] Commission on Government Forecasting and Accountability, *Facts on Funds: New Funds Update*, May 2014, pp. 7-46.
[11] Public Act 96-0958, enacted on July 1, 2010.
[12] Public Act 96-1496, enacted on January 13, 2011. The provision can be found at 35 ILCS 5/901 (f) and (g).

The diversion would reduce General Funds income tax revenues by approximately $450 million in FY2015 if the 2011 income tax rate increases are rolled back as scheduled.[13] In the proposed FY2015 budget, the Governor's Office of Management and Budget assumes that the diversion rate would be decreased if the higher tax rates were extended in order to keep the diversion amount unchanged.

The Civic Federation opposes this diversion because removing resources from General Funds makes the State's annual budget process less transparent. The budget process is focused on the allocation of General Funds resources, and diverting revenues from General Funds essentially hides resources from public view. The statutory diversions also make it more difficult for lawmakers to ensure that resources are allocated each year to the most critical priorities.

The FY2015 budget demonstrates how the diversions cause confusion about the total amount of resources available to the State. The two new funds are not shown in the recommended budget or the not recommended budget and total appropriations do not cover the amounts to be deposited into these funds.[14]

However, these amounts are reflected in the recommended budget's General Funds appropriations for the State Board of Education and the Illinois Department of Human Services. These General Funds appropriation amounts are deducted before total appropriations are computed.[15] The Governor's not recommended budget treats the diversions differently, not showing them as General Funds appropriations for the State Board of Education and the Illinois Department of Human Services. This artificially reduces the not recommended General Funds appropriations for education and human services compared with the recommended budgets.

Issues the Civic Federation Supports

While opposing the Governor's FY2015 budget, the Civic Federation supports the following aspects of the proposed financial plan.

Governor's Focus on Avoiding the Fiscal Cliff

The State's biggest financial problem in FY2015 is the scheduled partial rollback of income tax rate increases enacted in 2011. On January 1, 2015, individual income tax rates will decline from 5.0% to 3.75% and corporate income tax rates will decline from 7.0% to 5.25%.[16]

The rate reduction is projected to result in a $1.8 billion decline in General Funds revenues in FY2015 from FY2014.[17] Since this change occurs midway through the fiscal year, the budget impact will be much greater in FY2016.

The Governor's FY2015 budget deals with this issue directly by proposing to extend the existing tax rates. Under the proposed budget, General Funds revenues would increase by $1.2 billion from FY2014. This increase is inflated by $560 million due to the proposed elimination of the existing property tax credit. The property tax credit would be replaced with a homeowners' grant program costing $1.3 billion in FY2015, resulting in a net budget impact of $715 million.

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[13] Illinois State FY2015 Budget, pp. 3-12 to 3-13. The diversion also applies to net receipts from estates and trusts.
[14] Civic Federation communication with Governor's Office of Management and Budget, April 25, 2014.
[15] Illinois State FY2015 Budget, p. 2-41.
[16] Corporations also pay a 2.5% Personal Property Replacement Tax.
[17] Illinois State FY2015 Budget, p. 2-22.

In its recent State budget roadmap report for FY2015, the Federation found that the steep rollback in income tax rates would destabilize Illinois' already weak financial condition.[18] The Federation recommended that the 2011 tax rate increases be extended for one year and then scaled back by 20% over the following three years and that the income tax base should be broadened to include federally taxable retirement income. The Federation urged that the additional revenues be used to allow modest growth in agency spending while eliminating the unpaid bill backlog, providing relief to local governments and building up reserves to cushion against future economic downturns.

While opposing the Governor's proposed use of additional revenues, the Federation is encouraged that the FY2015 budget provides a plan to address the fiscal cliff. The alternative—recommending unrealistic budget cuts that are not based on specific policy proposals—may be expedient but do not solve the State's fiscal problems.

Governor's Efforts to Transform Medicaid

The Civic Federation supports the Governor's efforts to transform the State's Medicaid program. The Illinois Department of Healthcare and Family Services (HFS), which manages the program, is moving to enroll approximately two-thirds of recipients in managed care by January 2015.[19] Managed care is designed to improve the quality of care and lower costs by rewarding healthcare providers for keeping people healthy, rather than 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.[20]

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 U.S. Supreme Court's *Olmstead* opinion.[21] The State closed its Jacksonville Developmental Center in November 2012, but plans to close the Murray Developmental Center in Centralia have been blocked by a federal lawsuit.[22] According to State officials, it costs an average of $239,000 a year for a resident to live at the Murray facility, compared with approximately $130,000 to $135,000 in a smaller community setting.[23] The State is also implementing consent decrees relating to three federal lawsuits challenging its provision of services to the disabled.

Significant steps have been taken to improve processing of Medicaid applications. On October 1, 2013, HFS launched a new online application system that covers Medicaid as well as the Supplemental Nutrition Assistance Program (food stamps) and the Temporary Assistance for Needy Families program. The federal government is expected to pay most of the costs of the Integrated Eligibility System as part of its effort to accelerate development of systems to facilitate

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[18] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014.
[19] Illinois Department of Healthcare and Family Services, *Presentation to House Human Services Appropriations Committee*, April 10, 2014, p. 21.
[20] Public Act 96-1501, enacted on January 25, 2011.
[21] U.S. Department of Justice, *Olmstead: Community Integration for Everyone* http://www.ada.gov/olmstead/index.htm (last visited on May 5, 2013).
[22] Kerry Lester, "Murray Developmental Center closure postponed," *State Journal-Register*, October 26, 2013.
[23] Defendants Proposed Findings of Fact, March 27, 2014, pp. 19-20, Illinois League of Advocates of the Developmentally Disabled v. Illinois Department of Human Services No. 13-1300 (N.D. Ill filed February 19, 2013).

implementation of the Affordable Care Act.[24] The new system includes increased automation of verification of client information, such as electronic matches to Social Security for citizenship and to the Illinois Secretary of State for residency.

Governor's Five-Year Blueprint

In conjunction with the recommended FY2015 budget, the Governor issued a five-year blueprint for the State's General Funds budget. The blueprint consists of a one-page numerical table with revenue projections and proposed expenditures, as well as a page of narrative in the FY2015 budget.

The five-year blueprint is an important step toward long-term financial planning. A long-term financial plan highlights long-range financial issues and helps governments look beyond budget gap-bridging measures, such as one-time or temporary revenue sources, toward remedying structural problems. A time horizon of at least five years for financial planning is recognized as a best practice by the Government Finance Officers Association (GFOA).[25]

The GFOA and the National Advisory Council on State and Local Budgeting (NACSLB) both consider long-term financial planning to be a pillar of proper financial management. The NACSLB defines the financial planning process as an assessment of the long-term financial implications of current and proposed policies, programs and assumptions with development of appropriate strategies to achieve the plan's goals.[26] The GFOA and the NACSLB have developed best practices in long-term financial planning. Recommended elements of a long-term financial plan include:[27]

1. An analysis of historic financial trends.
2. An assessment of problems and opportunities facing the jurisdiction including an analysis of the financial environment.
3. A description of financial policies, service level preferences and financial goals.
4. A long-term (five-year) forecast of revenues and expenditures that uses alternative economic, planning and policy assumptions.
5. Narrative that discusses strategies, actions and scenarios needed to address financial imbalances and other long-term issues.
6. The identification of key assumptions used to develop the plan.
7. An analysis of liabilities and fund balance.

The Governor's blueprint lacks most of these elements. For example, the need to build up the State's financial reserves to cushion against future financial downturns is mentioned, but no strategy is discussed to implement a meaningful rainy day fund.[28] Similarly, the budget cites the need to impose spending caps but does not offer any specifics on how spending should be restrained.[29] The five-year plan ends with $2.2 billion in unpaid bills but does not suggest a strategy

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[24] Illinois Department of Healthcare and Family Services, *Annual Report Medical Assistance Program: Fiscal Years 2011, 2012 and 2013*, April 2014, p. 8.
[25] Government Finance Officers Association, *Best Practice: Long-Term Financial Planning,* February 22, 2008, http://www.gfoa.org/downloads/LongtermFinancialPlanningFINAL.pdf (last visited on February 3, 2014).
[26] National Advisory Council on State and Local Budgeting, *Recommended Budget Practices, (*Chicago: GFOA, 1998).
[27] See Shayne Kavanagh, *Financing the Future: Long-Term Financial Planning for Local Government* (Chicago: GFOA, 2007) and National Advisory Council on State and Local Budgeting, *Recommended Budget Practices,* (Chicago: GFOA, 1998), pp. 37-44.
[28] Illinois State FY2015 Budget, pp. 2-3 to 2-4.
[29] Illinois State FY2015 Budget, pp. 2-3 to 2-4.

for eliminating the backlog. Still, the Civic Federation applauds the blueprint as a first step toward a longer-range outlook on the State's fiscal challenges.

Civic Federation Recommendations

The Civic Federation offers the following recommendations for the FY2015 budget.

Develop a Comprehensive Fiscal Plan Including Gradual Reduction of Income Tax Rates

The Civic Federation recommends that the State of Illinois undertake a comprehensive approach to eliminate the FY2015 fiscal cliff and provide for the government's long-term financial stability like the plan detailed in the Institute for Illinois' Fiscal Sustainability's *State of Illinois FY2015 Budget Roadmap*.[30]

In order to achieve long-term sustainability in the State's finances, the Civic Federation proposes that any comprehensive long-term financial plan should meet the following goals:

- Ensure annual operating budgets are balanced;
- Eliminate the backlog of unpaid bills;
- Provide achievable spending limits;
- Set aside reserves for an adequate rainy day fund;
- Avoid drastic revenue cliffs;
- Provide a sustainable revenue base; and
- Include additional assistance for local governments.

To achieve these goals, the Federation continues to recommend that the State address the revenue cliff in FY2015 by extending the current income tax rates for one additional year and then rolling them back gradually thereafter. The one-year extension allows the State to avoid a financial crisis while at the same time paying down a larger portion of the State's unpaid bills in the near term, giving relief to vendors and local governments. Both the individual income tax rate and the corporate income tax rate should be gradually reduced by 20.0%.

In order to broaden its income tax base and facilitate the gradual rollback of the income tax rates, the Civic Federation recommends that the State of Illinois eliminate the income tax exemption for federally taxable amounts of retirement income, which would create greater equity among taxpayers. The broader base will also ensure greater long-term sustainability of the State's resources by accessing a growing portion of the economy. As shown in the FY2015 Budget Roadmap report, the State could craft an exemption for low-income retirees that would increase the amount of retirement income excluded from taxation in Illinois above and beyond the amount already exempted by the federal government, while still ensuring an adequate expansion of the income tax base.[31]

The State should use the increased resources to eliminate its backlog of unpaid bills within the next five years by establishing spending controls that limit the growth in net agency spending. Annual operating surpluses created by the spending controls should be used to pay down the bill backlog.

[30] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014.
[31] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014, p. 36.

Once the backlog of unpaid bills is eliminated, the State should make adequate deposits into a rainy day fund in order to mitigate the effects of future economic downturns and avoid fiscal emergencies. Illinois should work toward building a rainy day fund equal to 5% of General Funds revenues.

In light of the financial pressures facing Illinois municipalities, if the State of Illinois extends the income tax rates it should also restore the full 10% share of the new income tax distributed to local governments. Under current law, local governments were limited to sharing in just the original 3.0 percentage points of the individual income tax and 4.8 percentage points of the corporate income tax. The City of Chicago, which faces a projected $1.0 billion deficit going into the next fiscal year, estimates that it would have received more than $400 million in revenues since 2011 if local governments had not been excluded from sharing in the increased income tax revenues. Chicago receives roughly 21% of the funding provided by the State to local governments and like many other local governments is facing ongoing financial pressure due to its own pension funding crisis.

Eliminate the Revenue Diversion from General Funds

The Civic Federation recommends repealing the new statutory diversions of income tax revenues from the General Funds to fund human services and education. Any future efforts to shift resources outside of the scrutiny of the General Funds budgeting process should be rejected.

Beginning in February 2015, a share of individual income tax revenue is diverted from General Funds to provide additional resources for human services and education through appropriations from two other State funds. This diversion was required by the 2011 law that included the temporary income tax rate increases.[32]

In the proposed FY2015 budget, the diversions are estimated to reduce General Funds revenue by approximately $450 million.[33] The annual diversions grow considerably after FY2015, when they are based on a full fiscal year's revenue.

Although this revenue is still available to the State, it is essentially hidden from public view due to the intense focus on General Funds during the annual budget process. The diversion makes the budget process less transparent and hinders lawmakers' ability to direct resources each year to the areas of highest priority.

Develop a Consensus Estimate of Unpaid Bill Backlog

The Civic Federation recommends that the State of Illinois develop an official estimate of the State's backlog of unpaid bills as of the end of the fiscal year. The bill backlog has become a widely used indicator of Illinois' fiscal distress, but conflicting estimates are issued by different agencies and by a single agency in different documents.

The total backlog consists of General Funds payables and other General Funds liabilities. Data on the first component, General Funds payables, have regularly been provided in State budgets and bond documents. These payables are covered by current fiscal year appropriations and represent

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[32] Public Act 96-1496, enacted on January 13, 2011. The provision can be found at 35 ILCS 5/901 (f) and (g). The diversion also applies to net receipts from estates and trusts.
[33] Illinois State FY2015 Budget, p. 2-41. The diversion rate was lowered to keep the amount unchanged if income tax rate increases are extended.

amounts that must be paid during the lapse period, the period of time after the end of the fiscal year when this year's bills may be paid with next year's revenues.[34]

The second component, other General Funds liabilities, consists of a variety of State obligations that are not shown in the budget because they are not covered by current year appropriations. While payables include only what has been submitted for processing by the Comptroller's Office, other General Funds liabilities are more difficult to track precisely because they are held at various State agencies.

Other General Funds liabilities include obligations known as Section 25 liabilities. Section 25 of the State Finance Act generally requires that the State pay its bills from a given fiscal year with that same year's appropriation, allowing for additional time during the lapse period.[35] Exceptions to Section 25 allow certain liabilities, mainly Medicaid bills and group health insurance claims, to be paid from future year appropriations. Other General Funds liabilities have also included unpaid income tax refunds, obligations of the Community Care Program at the Illinois Department on Aging and back wages owed to union members due to a dispute over cancelled raises.[36]

Over the past few years, as its financial condition attracted more scrutiny, Illinois began to report other General Funds liabilities in its bond documents. The FY2015 budget represents the first time that detailed information on other General Funds liabilities has been shown in the annual budget.[37] The additional information was required by a law enacted in 2013.[38]

However, the new numbers in the FY2015 budget are not consistent with numbers in the FY2014 budget, State bond documents and the Governor's five-year blueprint issued in conjunction with the FY2015 budget.[39] The FY2015 budget does not describe the methodology used to calculate other General Funds liabilities and does not explain the inconsistencies.

For example, the FY2014 budget stated that unpaid bills totaled \$8.7 billion at the end of FY2012.[40] The FY2015 budget puts the year-end FY2012 backlog at \$8.1 billion.[41] The difference appears to be related to which Section 25 liabilities are considered to be obligations of General Funds, rather than obligations of other State funds. The State's bond documents have used even larger numbers in describing Section 25 liabilities.[42] The Comptroller's Office put the FY2012 year-end total backlog at \$7.5 billion.[43]

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[34] The lapse period was permanently extended to six months in FY2013 under Public Act 97-0932, enacted on August 10, 2012.
[35] 30 ILCS 105/25.
[36] For more information on other General Funds liabilities, see page 31 of this report.
[37] Illinois State FY2015 Budget, p. 2-23. The Governor's Office of Management and Budget also issued a report to the General Assembly on January 26, 2014 that gave a detailed monthly breakdown of other General Funds liabilities from December 2012 through December 2013.
[38] Public Act 98-0460, enacted on August 16, 2013.
[39] It is apparent that the FY2015 budget mistakenly transposes the FY2012 and FY2013 Section 25 liabilities, but this error does not explain the inconsistencies cited above.
[40] Illinois State FY2014 Budget, p. 2-3.
[41] Illinois State FY2015 Budget, p. 2-23.
[42] State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement*, April 10, 2014, p. 53.
[43] Illinois Office of the Comptroller, "Bill Backlog Drops for Now; Payment delays expected to grow in coming months," *Comptroller's Quarterly*, July 2013, p. 1.

For FY2014 and FY2015, the FY2015 budget estimates the year-end backlogs at $5.4 billion and $5.1 billion, respectively.[44] The five-year blueprint puts the FY2014 backlog at $4.9 billion and the FY2015 backlog at $4.4 billion. That difference appears to involve the inclusion or exclusion of certain bills held at HFS after the end of the fiscal year.

Given the importance of these numbers and their frequent use by the media, the Civic Federation recommends that the Governor's Office of Management and Budget, the Comptroller's Office and the Illinois Department of Revenue agree on a methodology to estimate the total backlog of unpaid bills. This methodology should be explained in any State document showing the unpaid bill backlog. If a consensus estimate cannot be achieved, then the reason for the varying estimates should also be explained.

Establish a 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 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, in recent 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.

Prior to the publication of the Governor's FY2015 budget, the General Assembly approved a revenue estimate in House Joint Resolution 80 totaling $34.5 billion, which also serves as the spending limit for the legislature's budget deliberations.[45] The estimate is based on the current scheduled rollback of the temporary income tax increases under current law. However, this amount differs from the Governor's not recommended budget, which totals $34.9 billion. The Governor's recommended FY2015 budget proposal offers a third projection based on the extension of the temporary income tax rates and other policy proposals totaling $38.6 billion.

The General Assembly's revenue projection for FY2015 was published prior to the Governor's budget, which was delayed until March 26, 2014. It is unclear if further revisions will be made to the revenue estimates being used in the legislature prior to the enactment of the FY2015 budget.

Similarly, in FY2014 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. 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. In the last days of its

[44] Illinois State FY2015 Budget, p. 2-23.

[45] 98th Illinois General Assembly House Joint Resolution 80, adopted by the House February 25, 2014, adopted by the Senate March 6, 2014.

regular session the House passed a new General Funds revenue estimate which increased the total but still did not match the Governor's projections.

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.[46]

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.[47] 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 as the fiscal year progresses.[48]

Governor Quinn's Budgeting for Results Commission stated in its November 2013 report that the State should consider establishing consensus revenue forecasting practices similar to those used in other states.[49]

Implement 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 and personnel positions.

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 recommended FY2015 budget continues the recent practices of including an itemized list of transfers out by fund[50] and a Budgeting for Results table, which shows all State appropriations organized by program and outcome, rather than by agency.[51] The Governor's Office of

[46] 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.
[47]www.ncsl.org.default.aspx?tabid=12637
[48] For more information on revenue forecasting in other states, see Civic Federation's Institute for Illinois' Fiscal Sustainability blog, http://www.civicfed.org/iifs/blog/illinois-lacks-executive-legislative-consensus-revenue-estimates.
[49] State of Illinois, Budgeting for Results Commission, *3nd Annual Report*, November 1, 2013, p. 14.
[50] Illinois State FY2015 Budget, pp. 2-69 to 2-70.
[51] Illinois State FY2015 Budget, pp. 2-42 to 2-67.

Management and Budget has again made available to the public a downloadable spreadsheet with detailed information on appropriations and expenditures.[52]

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.[53] 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 budget also provides minimal information with regard to personnel. The only aggregate information on state personnel in the FY2015 budget document consists of a chart depicting the percentage of employees in agencies under the Governor by category of agency, as well as two accompanying paragraphs explaining the projected increase of 1,405 positions in FY2015.[54] Because the estimated headcount number for FY2014 is not provided, it is not possible to calculate the total projected headcount number in FY2015.This is less information than in prior years, when the budget included a table showing headcount trends for the past several years by agency category. 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 GOMB. 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.

Consolidate Special State Funds

The Civic Federation recommends that the State's Special Funds should be reviewed annually and consolidated and/or eliminated except in very high priority situations. The vast majority of the approximately 550 Special State Funds were created to receive earmarked revenues that are only used for designated purposes. 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 be reserved for a few priority or mandatory programs. The State should be afforded maximum flexibility in allocating resources to meet policy priorities.

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[52]State of Illinois, Governor's Office of Management and Budget, *Operating Budget Detail, http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202015%20Budget%20Book/FY2015BudgetByLineItemData.xls (last visited on May 2, 2014).*

[53] Commission on Government Forecasting and Accountability, *FY2015 Liabilities of the State Employees' Group Insurance Program*, March 2014.

[54] Illinois State FY2015 Budget, p. 2-24.

BUDGET ANALYSIS

On March 26, 2014, Governor Pat Quinn issued a recommended FY2015 budget for the State of Illinois that proposes an extension of temporary income tax rate increases enacted in 2011.[55] The rate increases are scheduled to be partially phased out on January 1, 2015, midway through the fiscal year.[56]

Governor Quinn also presented a "not recommended" budget, reflecting the scheduled income tax rate reductions. Under State law, the Governor is required to present a budget based only on existing revenue sources.[57]

This section provides an overview of the budget process and an analysis of the Governor's recommended FY2015 General Funds budget.[58] It also reviews the Governor's five-year budget plan, which was issued in conjunction with the FY2015 budget proposal.

Budget Overview

Although Illinois' financial condition has improved over the last five years, the State is facing yet another fiscal crisis in FY2015. Income tax rate increases that took effect in January 2011 are scheduled to be partially rolled back halfway through the fiscal year, resulting in a significant decline in revenues.[59] The individual income tax rate, which had been increased to 5.0% from 3.0%, is set to drop to 3.75%. The corporate income tax rate, previously raised to 7.0% from 4.8%, is scheduled to roll back to 5.25%.[60]

Meanwhile, a new pension law designed to lower Illinois' enormous unfunded liability will not reduce statutorily required State contributions until FY2016, and the savings could be further delayed or eliminated due to legal challenges.[61] The State's backlog of unpaid bills, which began to accumulate during the Great Recession, has declined substantially from its peak but is still expected to stand at roughly $5.4 billion at the end of FY2014.

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[55] Public Act 96-1496, enacted on January 13, 2011.
[56] The State of Illinois' fiscal year begins on July 1 and ends on June 30.
[57] 15 ILCS 20/50-5(a).
[58] General Funds support the regular operating and administrative expenses of most State agencies and are the funds over which the State has the most control. The operating budget also includes Other State Funds, which are accounts for activities funded by specific revenue sources that may only be used for specific purposes, and Federal Funds (other than those designated for General Funds), which support a variety of State programs with federal revenues.
[59] Public Act 96-1496, enacted on January 13, 2011.
[60] In addition to these rates, corporations pay a Personal Property Replacement Tax of 2.5%.
[61] Public Act 98-0599, enacted on December 5, 2013.

The following table summarizes Illinois' General Funds budget results from FY2010 through FY2014. The numbers for FY2014 do not include supplemental appropriations of $773 million proposed by the Governor but not yet enacted.

State of Illinois General Funds Budget Summary: FY2010-FY2014 (in $ millions)					
	FY2010	**FY2011**	**FY2012**	**FY2013**	**FY2014 Revised***
Operating Revenues	$ 27,366	$ 30,164	$ 33,620	$ 36,363	$ 36,725
Operating Expenditures**	$ 33,254	$ 34,002	$ 34,097	$ 35,367	$ 35,854
Operating Surplus (Deficit)	**$ (5,888)**	**$ (3,838)**	**$ (477)**	**$ 996**	**$ 871**
Borrowing for Operations	$ 3,466	$ 5,426	$ -	$ -	$ -
Operating Surplus (Deficit) after Borrowing	$ (2,422)	$ 1,588	$ (477)	$ 996	$ 871
(Accumulated Deficit from Prior Years)	$ (3,673)	$ (6,095)	$ (4,507)	$ (4,984)	$ (3,988)
(Total Deficit)	**$ (6,095)**	**$ (4,507)**	**$ (4,984)**	**$ (3,988)**	**$ (3,117)**

*As of March 2014.

**FY2010 expenditures include $1.0 billion to repay failure of revenue borrowing in FY2010 and $26 million in interest on short-term borrowing. FY2011 expenditures include $32 million in interest on short-term and interfund borrowing. FY2012 expenditures include $356 million repayment of interfund borrowing. FY2013 expenditures include $132 million repayment of interfund borrowing. FY2014 expenditures do not include proposed supplemental appropriations of $773 million that have not been enacted.

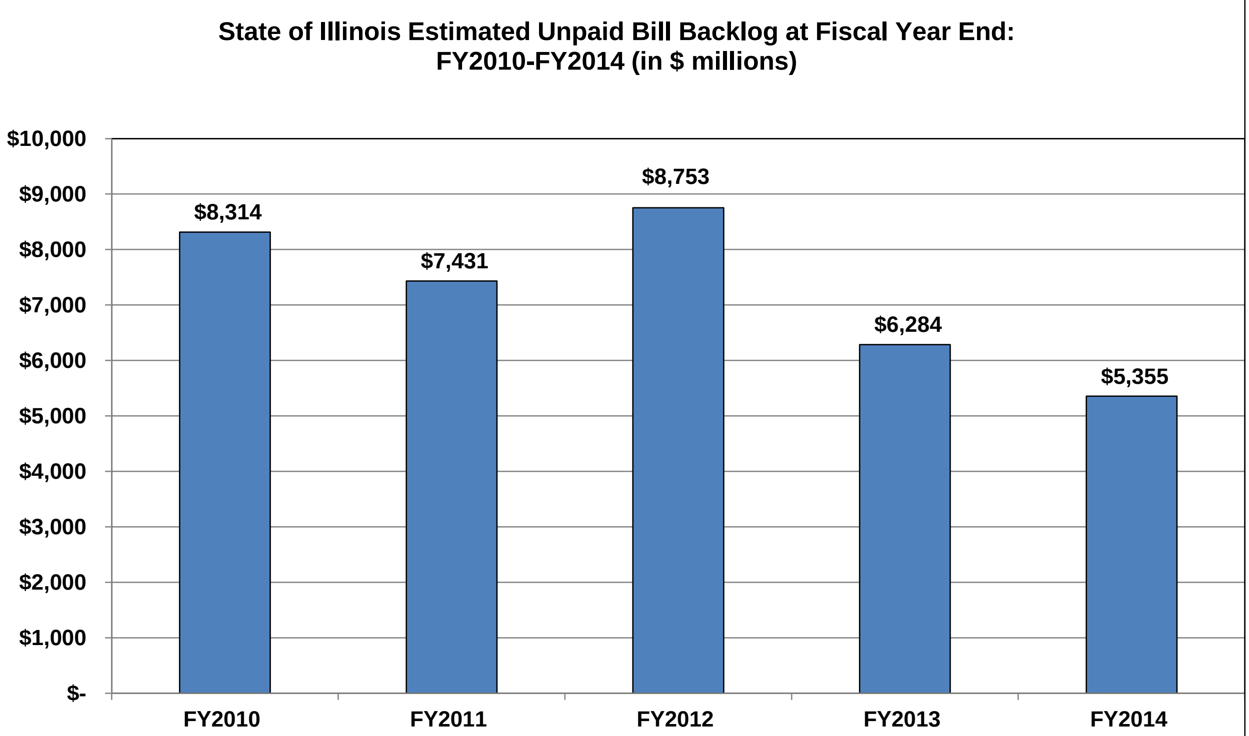
Source: State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement* , April 10, 2014, pp. 14-17.

Largely as a result of additional revenue from the income tax rate increases, the State has not borrowed for operations since FY2011. Illinois issued bonds in FY2010 and FY2011 to pay for its statutorily required pension contributions, but the State has been able to make the contributions from General Funds in the past three years. Operating results were also aided by spending restraint and reform, especially in the Medicaid program, and by an influx of individual income tax revenue in April 2013 attributed to taxpayers' desire to avoid higher federal tax rates the following year.

The total deficit, consisting of the operating deficit or surplus and the accumulated deficit from prior years, declined from $6.1 billion at the end of FY2010 to an estimated $3.1 billion at the end of FY2014. If the proposed FY2014 supplemental appropriations of $773 million were included, then the operating surplus would be reduced and the total deficit would be increased.

Illinois has dealt with its General Funds deficits by delaying bills and paying them from the next fiscal year's revenue. The State's unpaid bill backlog also includes other General Funds liabilities that have not been reflected in the budget, which consist mainly of Medicaid and group health insurance costs paid out of future appropriations.

The following chart shows estimated General Funds payables and other liabilities at the end of the fiscal year from FY2010 to FY2014. The FY2014 numbers are based on the assumption that the proposed supplemental appropriations of $773 million are not enacted; most of these costs are shown as other General Funds liabilities. The backlog has declined from roughly $8.8 billion at the end of FY2012 to a projected $5.4 billion at the end of FY2014.



Source: Civic Federation calculations based on State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement*, April 10, 2014, pp. 31-32 and 53-54; Illinois State FY2015 Budget, pp. 2-22 to 2-23; Illinois Office of the Comptroller, *Section 25 Deferred Liabilities, http://www.ioc.state.il.us/index.cfm/fiscal-condition/section-25/download-pdf-section-25-deferred-liabilities-in-thousands/;* Communication between Civic Federation and Governor's Office of Management and Budget, April 12, 2013; Communication between Civic Federation and Illinois Department of Revenue, September 4, 2012.

In light of the fiscal challenges facing the State, Governor Quinn took the unusual step of presenting two budgets for FY2015: a recommended budget and a not recommended budget. The recommended budget is based on an extension of the 2011 tax rate increases, which would require action by the Illinois General Assembly. Because State law requires a budget based on existing resources, the not recommended budget reflects the current statutory requirement of a rate rollback.[62] The Illinois Constitution and State law require that the Governor's proposed budget be balanced.[63]

[62] 15 ILCS 20/50-5(a).
[63] Illinois Constitution, Article VIII, Section 2(a); 15 ILCS 20/50-5(a).

The recommended budget for FY2015, based on an extension of existing income tax rates, shows General Funds revenues of $37.9 billion, up $1.2 billion, or 3.3%, from $36.7 billion in FY2014. The FY2015 budget proposes an increase of $2.2 billion, or 6.2%, in General Funds expenditures from FY2014.[64] The spending increase is due to both higher agency spending and a new $500-a-year grant to State homeowners that would replace the previous property tax credit on State income taxes.[65] To close an operating deficit of $170 million and reduce the backlog of unpaid bills, the recommended budget includes $650 million of borrowing from other funds (known as interfund borrowing).

The Governor's not recommended FY2015 budget, based on the scheduled rollback of income tax rates, shows a decline of $1.8 billion, or 4.9%, in General Funds revenues to $34.9 billion from $36.7 billion in FY2014. To balance the budget while lowering tax rates, the not recommended budget reduces spending by $1.3 billion, or 3.6%, from FY2014.[66] The Governor has treated certain expenditures as fixed or non-discretionary: pension contributions, group insurance payments, Medicaid spending and statutorily required transfers out of General Funds.[67] As a result, spending reductions in the not recommended budget are focused on education, human services and public safety. An operating surplus of $357 million is used to pay down accumulated bills.

The next chart summarizes the recommended and not recommended budget plans for FY2015 and compares the results to FY2014. The FY2014 numbers do not include proposed supplemental appropriations of $773 million.

State of Illinois General Funds Budget Summary: FY2014-FY2015 (in $ millions)

	FY2014 Revised*	FY2015 Not Rec.	FY2015 Rec.	$ Change FY2014-FY2015 Not Rec.	% Change FY2014-FY2015 Not Rec.	$ Change FY2014-FY2015 Rec.	% Change FY2014-FY2015 Rec.
Operating Revenues	$ 36,725	$ 34,934	$ 37,925	$ (1,791)	-4.9%	$ 1,200	3.3%
Operating Expenditures	$ 35,854	$ 34,577	$ 38,095	$ (1,277)	-3.6%	$ 2,241	6.3%
Operating Surplus/(Deficit)	**$ 871**	**$ 357**	**$ (170)**	**$ (514)**	**-59.0%**	**$ (1,041)**	**-119.5%**
Interfund Borrowing	$ -	$ -	$ 650	$ -	na	$ 650	na
Operating Surplus/(Deficit) After Borrowing for Operations	$ 871	$ 357	$ 480	$ (514)	-59.0%	$ (391)	-44.9%
(Accumulated Deficit from Prior Years)	$ (3,988)	$ (3,117)	$ (3,117)	$ 871	-21.8%	$ 871	-21.8%
(Total Deficit)	**$ (3,117)**	**$ (2,760)**	**$ (2,637)**	**$ 357**	**-11.5%**	**$ 480**	**-15.4%**

*As of March 2014. FY2014 expenditures do not include proposed FY2014 supplemental appropriations of $773 million.

Source: Illinois State FY2015 Budget, pp. 2-22 to 2-23.

The deficits would be reflected in General Funds unpaid bills and other payables of $2.7 billion under the recommended budget and $2.9 billion under the not recommended budget. The addition

[64] This calculation does not include FY2014 supplemental appropriations of $773 million proposed by the Governor but not yet enacted.

[65] The property tax credit has been reflected (but not shown) in State budgets as a reduction in income tax revenues. In the FY2015 budget the new homeowners' grant program is shown as an expenditure and revenues are increased to offset the revenue loss that would have resulted from the current property tax credit. The total cost of the new program is $1.275 billion in FY2015; the net cost (the difference between the new expenditure and the loss of income tax revenue that would have resulted from the current property tax credit) is $715 million.

[66] This spending reduction does not reflect proposed FY2014 supplemental appropriations of $773 million that have not been enacted.

[67] Statutorily required General Funds pension contributions in the not recommended budget are $150 million higher than statutorily required pension contributions in the recommended budget because the not recommended budget does not account for offsetting payments funded by the State Pensions Fund, which have been authorized regularly by the General Assembly.

of other General Funds liabilities would result in total bill backlogs of approximately $5.1 billion and $5.3 billion, respectively.

In recent years, the legislature's budget has been based on revenue estimates developed by the House of Representatives. On February 25, 2014, the House adopted House Joint Resolution 80, which estimates FY2015 General Funds revenues at $34.5 billion based on the rollback of tax rate increases.[68] The Senate approved the revenue estimate on March 6. The estimate is $439 million below the revenue figure of $34.9 billion in the Governor's not recommended budget.

The legislature has begun to hold hearings on appropriation bills based on the Governor's not recommended budget. It is not clear whether an extension of tax rate increases will be considered before the scheduled end of the regular spring legislative session on May 31. The budget is usually approved by the end of the session, when a simple majority vote is required for a bill to take effect immediately. After May 31 of one calendar year, a three-fifths vote is required for the bill to take effect before June 1 of the next calendar year.[69]

The legislature's actions during the remainder of the spring legislative session will be closely scrutinized by credit rating agencies, which have given Illinois the lowest ratings of any U.S. state.[70] In a recent report, Standard & Poor's wrote that Illinois is "approaching another critical juncture," in which "the next 50 days or so will [be] pivotal to the state's future structural budget alignment."[71]

Revenues

The State of Illinois receives annual operating resources from taxes and fees levied by the State, as well as grants and other revenues provided by the federal government to fund its total annual expenditures. The Governor's recommended FY2015 budget includes total revenues of $64.7 billion, of which $38.6 billion are available for General Funds spending.[72] The remaining revenues not included in General Funds are restricted for specific purposes, shared through revolving funds between government agencies, held in trusts or generally not available for discretionary spending by the General Assembly.

FY2015 Recommended versus "Not Recommended"

The Governor's "not recommended" FY2015 budget included lower revenue estimates based on the partial rollback of the temporary income tax rates scheduled to take place on January 1, 2015. The individual income tax rate will decline to 3.75% from 5.0% and the corporate income tax rate will be reduced to 5.25% from 7.0%. It should be noted that the State also collects the Personal Property

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[68] 98th Illinois General Assembly, House Joint Resolution 80, adopted by the House on February 25, 2014 and the Senate on March 6, 2014.
[69] Illinois Constitution, Article IV, Section 10.
[70] Illinois' credit is rated A minus by Standard & Poor's and Fitch ratings and A3 by Moody's Investors Service. For more information on the State's credit rating history, see Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, March 3, 2014, pp. 10-11.
[71] Standard & Poor's, *Developing Story: Illinois Is Facing Crucial Decisions As It Determines Its Credit Path*, April 9, 2014.
[72] General Funds support the regular operating and administrative expenses of most State agencies and are the funds over which the State has the most control. The operating budget also includes Other State Funds, which are accounts for activities funded by specific revenue sources that may only be used for specific purposes, and Federal Funds (other than those designated for General Funds), which support a variety of State programs with federal revenues.

Replacement Tax on behalf of local governments at a rate of 2.5% on corporate income, making the effective corporate income tax rate in Illinois currently 9.5% and 7.75% after the partial rollback.

The "not recommended" budget projects total State revenues in FY2015 of $61.7 billion, or $3.0 billion less than the recommended total that includes the extension of higher income tax rates. General Funds revenues in the not recommended budget total $34.9 billion or $3.6 billion less than the recommended total. Of the $3.6 billion difference between the two estimates, $3.0 billion represents a loss in revenue due mostly to the income tax and a $650 million represents the loss in resources because interfund borrowing included in the recommended budget is not included in the not recommended budget.[73]

Several other policy proposals included in the Governor's recommended FY2015 budget but not in the not recommended budget result in a significant reduction in revenue estimates when compared to the recommended amounts. The Governor's proposal to eliminate the Illinois Property Tax Credit increases the recommended FY2015 General Funds revenues by $560 million.[74] The not recommended proposal does not include this change or increase in revenues.

The not recommended budget also includes an increase in the percentage of income tax revenues that are diverted from gross receipts to pay for refunds. The change is due to the need to pay for refunds based on a higher tax rate for the first half of the year with revenues collected at a lower rate in the second half of the year.[75] This change reduces the not recommended budget income tax revenues available in FY2015 by a total of $105.7 million compared to the current diversion rates. The rate at which individual income tax receipts are diverted for refunds increases to 10.0% in the FY2015 not recommended budget but remains at 9.5% in the recommended budget, the same level as FY2014.[76] The higher rate leads to a decline in General Fund revenues of $84.7 million in the not recommended FY2015 budget. The corporate income tax refund diversion rate increases to 14.0% in the not recommended FY2015 budget compared to a rate of 13.4% in the FY2015 recommended budget, which matches the FY2014 rate. The higher rate leads to an increased deposit to the Income Tax Refund Fund of $21.0 million and a corresponding decrease in corporate income tax revenues available for General Funds spending in the not recommended FY2015 budget.

Total income tax revenues in the not recommended budget are $17.9 billion, which is $2.7 billion, or a 13.1%, less than the total of $20.6 billion in the Governor's recommended FY2015 budget.

[73] For more details of the Governor's recommended Interfund borrowing proposal, see page 6 of this report.
[74] For more information about new homeowners' grant program included in the Governor's recommended FY2015 budget, see page 5 of this report.
[75] Illinois State FY2015 Budget, p. 3-12.
[76] Communication between the Civic Federation and the Governor's Office of Management and Budget, April 28, 2014.

The following table shows the General Funds revenue estimates in the Governor's recommended FY2015 budget compared to the not recommended budget for FY2015.

State of Illinois General Funds Revenues: Recommended FY2015 and Not Recommended FY2015 (in $ millions)				
	FY2015 Rec.	**FY2015 Not Rec.**	**$ Difference**	**% Difference**
State Taxes				
Income Taxes (net)	$ 20,627	$ 17,915	$ (2,712)	-13.1%
Personal (net)	$ 17,206	$ 14,844	$ (2,362)	-13.7%
Corporate (net)	$ 3,421	$ 3,071	$ (350)	-10.2%
Sales Taxes	$ 7,847	$ 7,810	$ (37)	-0.5%
Public Utility Taxes	$ 1,031	$ 1,031	$ -	0.0%
Cigarette Tax	$ 355	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 167	$ 167	$ -	0.0%
Estate Tax	$ 190	$ 190	$ -	0.0%
Insurance Taxes & Fees	$ 325	$ 325	$ -	0.0%
Corporate Franchise Tax & Fees	$ 201	$ 201	$ -	0.0%
Interest on State Funds & Investments	$ 17	$ 17	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 490	$ 490	$ -	0.0%
Total State Taxes	**$ 31,494**	**$ 28,745**	**$ (2,749)**	**-8.7%**
Transfers			$ -	
Lottery	$ 682	$ 682	$ -	0.0%
Riverboat Transfers & Receipts	$ 334	$ 334	$ -	0.0%
Other	$ 919	$ 879	$ (40)	-4.4%
Total Transfers	**$ 1,935**	**$ 1,895**	**$ (40)**	**-2.1%**
State Revenues	**$ 33,429**	**$ 30,640**	**$ (2,789)**	**-8.3%**
Federal Sources	**$ 4,496**	**$ 4,294**	**$ (202)**	**-4.5%**
Total Revenue	**$ 37,925**	**$ 34,934**	**$ (2,991)**	**-7.9%**
Interfund Borrowing	**$ 650**	**$ -**	**$ 650**	**na**
Total Including Interfund Borrowing	**$ 38,575**	**$ 34,934**	**$ (3,641)**	**-9.4%**

Source: Illinois State FY2015 Budget, p. 2-72.

Recommended FY2015 versus FY2014

By extending the current higher income tax rates, the Governor's recommended FY2015 budget avoids the revenue losses in the not recommended budget and projects a total year-to-year increase of $1.2 billion in General Funds revenues above the FY2014 amounts. Including the $650 million interfund borrowing proposed by the Governor for FY2015, total General Funds resources increase by $1.9 billion, or 5.0%, over the FY2014 total of $36.7 billion.[77] Under the not recommended budget, General Funds revenue in FY2015 would decline by $1.8 billion, or 4.9%, from FY2014.

Income taxes increase by $1.0 billion, or 5.1%, in the Governor's recommended FY2015 budget to $20.6 billion from $19.6 billion in FY2014. Individual income tax revenues increase by $905 million to $17.2 billion compared to $16.3 billion in FY2014. As mentioned above, $560 million of the FY2015 individual income tax revenues are attributable to the elimination of the Illinois property tax credit.[78] However, a large portion of that increase is offset by a reduction of individual income tax receipts totaling $450 million due to new diversions under Illinois law that take effect

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[77] For more information on the Governor's interfund borrowing proposal, see page 6 of this report.

[78] For more information about the proposed homeowners' grant program included in the Governor's recommended FY2015 budget, see page 5 of this report.

on February 1, 2015 to provide additional funding for education and human services programs outside the General Funds budget.[79]

The recommended FY2015 budget includes moderate increases in other General Fund revenues from FY2014. Sales taxes, which generate the second largest amount of State-source revenue, are expected to increase by 3.1%, or $237 million, to $7.8 billion in FY2015 from $7.6 billion in FY2014. Federal revenues included in General Funds resources increase by $383 million to $4.5 billion in FY2015 from $4.1 billion in FY2014.

The following table compares amounts included in the Governor's recommended FY2015 budget to current estimates of FY2014 General Funds revenues.

State of Illinois General Funds Revenues: Estimated FY2014 and Governor's Recommended FY2015 (in $ millions)				
	FY2014 Est.	FY2015 Rec.	$ Change	% Change
State Taxes				
Income Taxes (net)	$ 19,618	$ 20,627	$ 1,009	5.1%
Personal (net)	$ 16,301	$ 17,206	$ 905	5.6%
Corporate (net)	$ 3,317	$ 3,421	$ 104	3.1%
Sales Taxes	$ 7,610	$ 7,847	$ 237	3.1%
Public Utility Taxes	$ 1,006	$ 1,031	$ 25	2.5%
Cigarette Tax	$ 355	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 166	$ 167	$ 1	0.6%
Estate Tax	$ 218	$ 190	$ (28)	-12.8%
Insurance Taxes & Fees	$ 325	$ 325	$ -	0.0%
Corporate Franchise Tax & Fees	$ 203	$ 201	$ (2)	-1.0%
Interest on State Funds & Investments	$ 17	$ 17	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 572	$ 490	$ (82)	-14.3%
Total State Taxes	**$ 30,334**	**$ 31,494**	**$ 1,160**	**3.8%**
Transfers			$ -	
Lottery	$ 669	$ 682	$ 13	1.9%
Riverboat Transfers & Receipts	$ 327	$ 334	$ 7	2.1%
Other	$ 1,282	$ 919	$ (363)	-28.3%
Total Transfers	**$ 2,278**	**$ 1,935**	**$ (343)**	**-15.1%**
State Revenues	**$ 32,612**	**$ 33,429**	**$ 817**	**2.5%**
Federal Sources	**$ 4,113**	**$ 4,496**	**$ 383**	**9.3%**
Total Revenue	**$ 36,725**	**$ 37,925**	**$ 1,200**	**3.3%**
Interfund Borrowing	**$ -**	**$ 650**	**$ 650**	**na**
Total Including Interfund Borrowing	**$ 36,725**	**$ 38,575**	**$ 1,850**	**5.0%**

Source: Illinois State FY2015 Budget, p. 2-72.

General Funds 10-Year Trend

According to the Governor's FY2015 projections, total General Funds revenues increased by $11.2 billion over the last 10 fiscal years. This represents an increase of 41.0% from $27.4 billion in FY2006. The majority of the revenue growth is attributable to income taxes, which increase by $10.6 billion to $20.6 billion in FY2015 under the recommended FY2015 budget compared to

[79] Public Act 96-1496, enacted on January 13, 2011. The provision can be found at 35 ILCS 5/901 (f) and (g). The Governor's recommended FY2015 budget proposes reducing the 1/30th diversion of net individual income taxes to each fund in order to maintain the $450 million in estimated funding but not provide additional revenues from the extension of the higher income tax rates. Communication between the Civic Federation and Governor's Office of Management and Budget, April 18, 2014.

nearly $10.1 billion in FY2006. However, the growth was not consistent over the last 10 years and depended on an increase in rates in FY2011.

Both income taxes and sales taxes declined dramatically during the recession that began in December 2007 and lasted until June 2009.[80] Total State-source General Funds revenues declined by $3.4 billion from $24.8 billion in FY2008 to $21.5 billion in FY2010.[81] Total income tax revenues declined by $2.3 billion to $9.9 billion in FY2010 from $12.2 billion in FY2008. Sales taxes decline by $907 million to $6.3 billion in FY2010 from $7.2 billion in FY2008. 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.[82] 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%.[83] 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%.

In the Governor's recommended FY2015 budget that includes the extension of the higher income tax rates, total General Fund revenues are $5.0 billion more than the General Funds revenues brought in by the first full year of the increased income tax rates, which totaled $33.6 billion in FY2012. Income tax revenues are projected to increase by $2.7 billion to $20.6 billion in the Governor's recommended FY2015 budget from $18.0 billion in FY2012.

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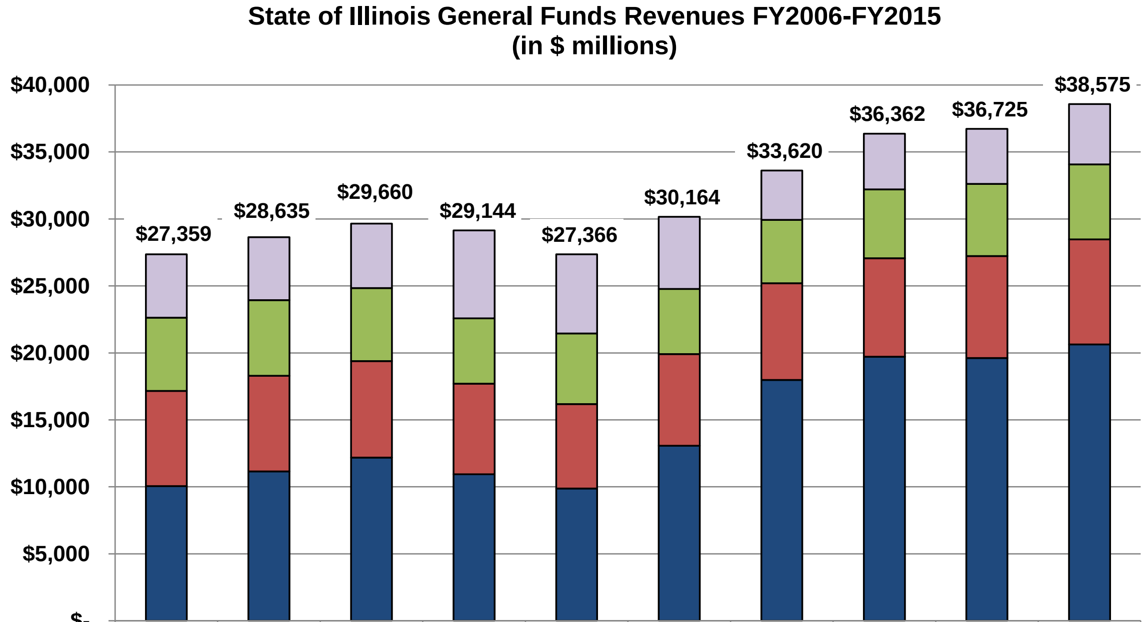
[80] National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," September 20, 2010.
[81] Illinois State Budgets: FY2009-FY2012.
[82] Public Act 96-1496.
[83] The State also collects a Personal Property Replacement Tax from corporations in Illinois on behalf of local governments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

The following chart shows the 10-year growth in General Funds revenue by major source from FY2006 through the projections for FY2015.



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 (Est.)	FY2015 (Rec.)
Total	$27,359	$28,635	$29,660	$29,144	$27,366	$30,164	$33,620	$36,362	$36,725	$38,575
Federal	$4,725	$4,702	$4,815	$6,567	$5,920	$5,386	$3,681	$4,154	$4,113	$4,496
Other Resources*	$5,479	$5,638	$5,450	$4,871	$5,267	$4,869	$4,740	$5,138	$5,384	$5,605
Sales Taxes	$7,092	$7,136	$7,215	$6,773	$6,308	$6,833	$7,226	$7,354	$7,610	$7,847
Income Taxes	$10,063	$11,159	$12,180	$10,933	$9,870	$13,076	$17,973	$19,716	$19,618	$20,627

*Includes interfund borrowing in FY2011 and FY2015.
Source: Illinois State Budgets FY2007-FY2015.

As shown in the chart above, the higher income tax rates created a greater disparity among revenue sources that support General Funds operations. In FY2006 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 FY2015 projections show income taxes making up 53.5% of General Funds revenues, with sales taxes totaling 20.3%, federal revenues 11.7% and other sources 14.5%. 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.[84]

Appropriations and Expenditures

The recommended FY2015 budget proposes total appropriations of $65.9 billion, including $32.2 billion in General Funds appropriations. The budget proposal also includes $25.8 billion in appropriations from Other State Funds and $7.9 billion in appropriations from Federal Funds.

General Funds support the regular operating and administrative expenses of most agencies and are the funds over which the State has the most control. Other State Funds are accounts for activities funded by designated revenue sources that may only be used for specific purposes. Federal Funds use federal revenues (besides those designated for General Funds) to support a variety of programs.

[84] Government Finance Officers Association, *Best Practices in Public Budgeting*, Practice 4.6: Develop Policy on Revenue Diversification, 2000.

The following table shows appropriations by type of fund in FY2011, FY2014 and FY2015. Other State Funds account for a growing share of appropriations—39.2% in FY2015 compared with 32.2% in FY2011. The shift is mainly due to increased funding of Medicaid from sources outside of General Funds.

State of Illinois Appropriations by Fund: FY2011-FY2015 (in $ millions)							
	FY2011*	FY2014**	FY2015 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
General Funds	$ 29,525	$ 31,140	$ 32,217	$ 1,077	3.5%	$ 2,692	9.1%
Other State Funds	$ 18,883	$ 25,195	$ 25,848	$ 653	2.6%	$ 6,965	36.9%
Federal Funds	$ 10,296	$ 8,054	$ 7,867	$ (187)	-2.3%	$ (2,429)	-23.6%
Total	**$ 58,704**	**$ 64,389**	**$ 65,932**	**$ 1,543**	**2.4%**	**$ 7,228**	**12.3%**

*FY2011 General Funds pension contributions of $3.7 billion were paid from the proceeds of pensions bonds and are included for comparability purposes.

**FY2014 General Funds appropriations do not include $773 million of proposed supplemental appropriations that have not been enacted or $32.2 million of continuing appropriations.

Source: Illinois State FY2015 Budget, p. 2-41; Illinois State FY2013 Budget, pp. 2-19 and 2-37.

It should be noted that total appropriations do not accurately reflect State spending because actual spending from Other State Funds and Federal Funds is often substantially below appropriation levels. In FY2011, for example, actual spending from Other State Funds was $14.4 billion, compared with appropriations of $18.9 billion; actual spending from Federal Funds was $5.5 billion, compared with appropriations of $10.2 billion.[85]

In addition, the total FY2015 budget does not include appropriations from two new funds—the Fund for the Advancement of Education and the Commitment to Human Services Fund—that are funded by diverting income tax revenues from General Funds, as discussed above. These diversions consist of deposits of $225 million into each of the two funds to provide additional resources for elementary and secondary education and human services.[86]

General Funds appropriations increase by $1.1 billion, or 3.5%, to $32.2 billion in the proposed FY2015 budget from $31.1 billion in FY2014. The FY2014 appropriation number does not include $733 million in proposed supplemental appropriations that have not been enacted. Over the five-year period, General Funds appropriations increase by $2.7 billion, or 9.1%, from $29.5 billion in FY2011.[87]

[85] Illinois State FY2013 Budget, p. 2-37. Budgeting excess appropriations from Other State Funds and Federal Funds avoids the need to request supplemental spending authority from the legislature in the event that additional resources become available after the budget is enacted. Excess appropriations from these funds do not affect the operating deficit.
[86] Illinois State FY2015 Budget, p. 2-41. The FY2015 budget includes these amounts in General Funds appropriations in its breakdown for the State Board of Education and the Department of Human Services. However, the $450 million is deducted from total appropriations.
[87] General Funds pension contributions in FY2011 were made from the proceeds of pension bonds, rather than from General Funds, but are treated as appropriations for comparability purposes in this discussion.

The next table highlights three components of General Funds appropriations: agency appropriations, pension contributions and State group insurance. As shown in the table, the increase in General Funds appropriations from FY2014 to the Governor's recommended FY2015 budget is largely due to increases in agency appropriations.[88] Over the five-year period beginning in FY2011, the increase reflects significantly higher statutorily required annual State pension contributions.

State of Illinois General Funds Appropriations: FY2011-FY2015 (in $ millions)							
	FY2011	FY2014	FY2015 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Agency Appropriations*	24,960	$ 23,806	$ 24,649	$ 843	3.5%	$ (311)	-1.2%
Pension Contributions**	3,680	$ 5,988	$ 6,093	$ 105	1.8%	$ 2,413	65.6%
State Group Insurance	885	$ 1,346	$ 1,475	$ 129	9.6%	$ 590	66.7%
Total	**29,525**	**31,140**	**32,217**	**$ 1,077**	**3.5%**	**$ 2,692**	**9.1%**

*FY2014 agency appropriations do not include $773 million of proposed supplemental appropriations that have not been enacted or $32.2 million of continuing appropriations.

**General Funds pension contributions of $3.7 billion in FY2011 were paid from the proceeds of pension bonds and are included for comparability purposes.

Source: Civic Federation calculations based on: Illinois State FY2015 Budget, pp. 2-22 to 2-23 and 2-35; Illinois State FY2013 Budget, pp. 2-18 to 2-19 and 2-31.

Proposed General Funds agency appropriations increase by $843 million, or 3.5%, in FY2015 from FY2014 and decline by $311 million, or 1.2%, from FY2011. Appropriations to the Department of Human Services increase by $501.8 million from FY2014, while appropriations to the State Board of Education increase by $291.3 million.[89]

General Funds appropriations for State group insurance increase by $129 million, or 9.6%, to $1.48 billion in FY2015 from $1.35 billion in FY2014.[90] Over the last five years, General Funds appropriations for group insurance have risen by $590 million, or 66.7%, from $885 million in FY2011. The FY2011 General Funds appropriation was significantly below annual costs, resulting in a substantial increase in unpaid health insurance claims at the end of the fiscal year.[91] The FY2014 appropriation, which was $104 million below authorized spending in FY2013, underestimated costs by approximately $140 million.[92] The proposed FY2015 appropriation is $30 million below projected costs, but the shortfall could be more than offset if $55 million in savings agreed to in a contract with the State's largest union are achieved.[93] A three-year contract with the American Federation of State, County and Municipal Employees (AFSCME), which began on July 1, 2012, is expected to save the State a total of $864 million on employee and retiree health insurance costs.[94]

[88] FY2014 agency appropriations do not include $773 millions in proposed supplemental appropriations that have not been enacted.
[89] General Funds appropriations to the Department of Human Services and the State Board of Education shown in the FY2015 budget include a total of $450 million in funding from two new State funds outside of the General Funds: the Commitment to Human Services Fund and the Fund for the Advancement of Education.
[90] Group insurance consists mainly of health insurance coverage for employees and retirees. The program also provides life insurance at a relatively small cost to the State. The FY2015 General Funds appropriation of $1.475 billion for group insurance comprises $1.460 billion for health insurance and $15.0 million for life insurance.
[91] Group health insurance is covered by a provision of the State Finance Act (30 ILCS 105/25 (b-4)) that allows certain current year costs to be paid from future years' appropriations.
[92] Communication between the Civic Federation and the Department of Central Management Services and the Governor's Office of Management and Budget, April 25, 2014.
[93] Communication between the Civic Federation and the Department of Central Management Services and the Governor's Office of Management and Budget, April 25, 2014.
[94] The $864 million savings figure includes $128 million in expected savings in FY2016.

Statutorily required General Funds pension contributions increase by $105 million, or 1.8%, to $6.1 billion in FY2015 from $6.0 billion in FY2014. Pension contributions rise by $2.4 billion, or 65.6%, from $3.7 billion in FY2011, when the State sold pension bonds to pay for its General Funds pension contributions. In the table, FY2011 pension contributions are shown as a component of appropriations for purposes of comparability and to provide a better perspective on State expenses.

Illinois' contributions to its five State retirement systems have been based on a 50-year funding plan that began in FY1996.[95] After a 15-year phase-in period, the law requires the State to contribute a level percentage of payroll sufficient to bring the retirement systems' funded ratios to 90% by FY2045. The funding plan and subsequently enacted changes deferred a large portion of the required State contributions to later years. The funding plan does not conform to reporting standards of the Governmental Accounting Standards Board and has generally required State contributions that were insufficient to keep the unfunded liability from growing.

Due largely to decades of inadequate State contributions, Illinois has the most underfunded retirement systems of any state.[96] The State's total unfunded pension liability stood at $97.5 billion on June 30, 2013, based on the market value of assets, and pension assets covered only 41.1% of pension liability.[97]

In December 2013 the State enacted a new pension law that reduces payments to retirees and employees and requires the State to pay off its unfunded pension obligations more quickly and completely than the existing funding plan.[98] The new law represents the State's first actuarially sound pension funding plan, designed to result in 100% funding over 30 years. The new law is expected to immediately reduce the unfunded liability by $21.1 billion and lower State contributions by $137.4 billion over 30 years and by $1.2 billion in FY2016, according to a recent report by the legislature's Commission on Government Forecasting and Accountability.[99] Approximately 89% of total State pension contributions come from General Funds.[100]

Although the new law is scheduled to take effect on June 1, 2014, its implementation is expected to be delayed by legal challenges and the proposed FY2015 budget does not reflect any savings from the law. The retirement systems certified FY2015 contribution amounts before the new law was enacted, and the legislation does not provide for revised certifications. Legislative leaders have said that savings will not be incorporated into the State's budget until the Illinois Supreme Court rules on the new law.[101] Five lawsuits have been filed by current State employees and retirees, alleging that the law violates the pension protection clause of the Illinois Constitution.[102]

[95] Public Act 88-0593. The five systems are the Teachers' Retirement System, the State Employees' Retirement System, the State Universities Retirement System, the Judges' Retirement System and the General Assembly Retirement System.
[96] Pew Center on the States, *The Widening Gap Update*, June 2012, p. 5.
[97] State of Illinois, General Obligation Bonds, Series of April 2014, April 10, 2014, *Official Statement*, p. 79.
[98] Public Act 98-0599, enacted on December 5, 2013. A summary of the law's provisions can be found on the website of the Teachers' Retirement System at https://trs.illinois.gov/press/reform/sb1.htm (last visited on April 24, 2014).
[99] Commission on Government Forecasting and Accountability, *Segal Actuarial Cost Study of P.A. 98-0599 (SB1)*, March 26, 2014, p. 1.
[100] State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement*, April 10, 2014, p. 19.
[101] Amanda Vinicky, "Speaker Madigan says Gov. shouldn't count on projected savings from passing pension reform," *Peoria Public Radio WCBU 89.9*, January 7, 2014.
[102] WUIS.org, "Fifth Lawsuit Filed Against Illinois Pension Law," March 6, 2014.

Expenditures from General Funds consist of net appropriations spent (appropriations minus unspent appropriations) 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 purposes.

The next table shows General Funds expenditures in FY2011, FY2014 and FY2015. Proposed expenditures in FY2015 are projected at $38.1 billion: net appropriations spent of $31.6 billion and total transfers out of $6.5 billion. General Funds expenditures increase by $2.2 billion, or 6.3%, from $35.9 billion in FY2014.[103] Over the last five years, expenditures increase by $4.1 billion, or 12.0%, from $34.0 billion in FY2011.

State of Illinois General Funds Expenditures: FY2011-FY2015 (in $ millions)

	FY2011	FY2014 Revised[1]	FY2015 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Agency Appropriations[2]	$ 24,960	$ 23,838	$ 24,648	$ 810	3.4%	$ (312)	-1.3%
Less Unspent Appropriations	$ (350)	$ (533)	$ (602)	$ (69)	12.9%	$ (252)	72.0%
Net Agency Appropriations Spent	$ 24,610	$ 23,305	$ 24,046	$ 741	3.2%	$ (564)	-2.3%
Pension Contributions[3]	$ 3,680	$ 5,988	$ 6,093	$ 105	1.8%	$ 2,413	65.6%
State Group Insurance	$ 885	$ 1,346	$ 1,475	$ 129	9.6%	$ 590	66.7%
Net Appropriations Spent	**$ 29,175**	**$ 30,639**	**$ 31,614**	**$ 975**	**3.2%**	**$ 2,439**	**8.4%**
Statutory Transfers Out							
Legislatively Required Transfers	$ 2,399	$ 2,933	$ 2,991	$ 58	2.0%	$ 592	24.7%
Debt Service on Pension Obligation Bonds	$ 1,667	$ 1,657	$ 1,503	$ (154)	-9.3%	$ (164)	-9.8%
Other Debt Service and Statutory Transfers Out[4]	$ 761	$ 625	$ 711	$ 86	13.8%	$ (50)	-6.6%
Property Tax Relief Fund	$ -	$ -	$ 1,275	$ 1,275	na	$ 1,275	na
Total Transfers Out[5]	**$ 4,827**	**$ 5,215**	**$ 6,481**	**$ 1,266**	**24.3%**	**$ 1,654**	**34.3%**
Total Expenditures	**$ 34,002**	**$35,854**	**$38,095**	**$ 2,241**	**6.3%**	**$ 4,093**	**12.0%**

[1]As of March 2014. FY2014 General Funds appropriations do not include $773 million of proposed supplemental appropriations that have not been enacted.

[2]FY2014 General Funds appropriations do not include $773 million of proposed supplemental appropriations that have not been enacted and include $32.2 milliion of continuing appropriations.

[3]Pension contributions in FY2011 were made primarily by issuance of pension obligation bonds, rather than from General Funds.

[4]Includes $32 million in interest on interfund and short-term borrowing in FY2011.

[5]Totals may not add due to rounding.

Source: State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement* , April 10, 2014, pp. 14-15 and 31-32; Illinois State FY2015 Budget, p. 2-35; Ilinois State FY2013 Budget, p. 2-31.

In addition to higher net appropriations, proposed FY2015 expenditures increase due to a new transfer out of $1.3 billion to the Property Tax Relief Fund. This annual grant of $500 to residential property owners would replace the State's existing property tax credit. The property tax credit has been reflected in the budget as a reduction in revenues; the new homeowners' grant program increases projected FY2015 revenues by $560 million and expenditures by $1.3 billion, for a net cost to the State of $715 million.

Other transfers out cover debt service payments on previously issued bonds. Debt service on pension bonds declines by $154 million, or 9.3%, from $1.7 billion in FY2014 to $1.5 billion in FY2015. The debt service relates to pension bonds sold in 2003, 2010 and 2011.[104] Debt service

[103] FY2014 expenditures do not include proposed supplemental appropriations of $773 million.

[104] In 2003 Illinois 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.

transfers for bonds backing capital projects increase to $711 million in FY2015 from $625 million in FY2014.

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. Legislatively required transfers increase by $58 million, or 2%, to $2.99 billion in FY2015 from $2.93 billion in FY2014.

The largest legislatively required transfer—$1.2 billion in FY2015—involves a distribution of income taxes to local governments.[105] Before income tax rates were increased in 2011, local governments received 10% of income tax collections (net of deposits to pay tax refunds). Because the State did not include local governments in the rate increases, their effective share declined to 6.0% of net individual income tax collections and 6.86% of net corporate income tax collections.[106]

Budget Deficit and Unpaid Bills

The recommended FY2015 budget results in a projected total General Funds deficit of $2.6 billion and a backlog of unpaid bills of roughly $5.1 billion at the end of the fiscal year.

The total deficit is the sum of the operating deficit and the accumulated deficit from prior years. The Governor's recommended FY2015 budget shows an initial operating deficit of $170 million. The initial operating deficit is closed by borrowing $650 million from State accounts outside of the General Funds, a practice known as interfund borrowing.[107] Depending on which accounts are tapped, the State might have to pay interest at a relatively low rate on the borrowed funds.

After the proposed interfund borrowing, the recommended FY2015 budget shows an operating surplus of $480 million. The total deficit, including the accumulated deficit from prior years, declines to $2.6 billion.

[105] Illinois State FY2015 Budget, pp. 2-69 to 2-70.
[106] 40 ILCS 5/9(b).
[107] For more information on interfund borrowing, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, http://www.civicfed.org/iifs/blog/governor%E2%80%99s-fy2015-budget-includes-interfund-borrowing-close-budget-gap.

The following chart shows the State's General Funds budget plans in FY2011, FY2014 and FY2015. The FY2014 budget does not include proposed supplemental appropriations of $773 million that have not been enacted. Including the proposed supplemental appropriations would reduce the operating surplus and increase the total deficit.

State of Illinois General Funds Budget Plan: FY2011-FY2015 (in $ millions)							
	FY2011	FY2014 Revised[1]	FY2015 Rec.	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
State Tax Revenues	$ 22,921	$ 30,334	$ 31,494	$ 1,160	3.8%	$ 8,573	37.4%
State Transfers In	$ 1,857	$ 2,278	$ 1,935	$ (343)	-15.1%	$ 78	4.2%
Total State Revenues	**$ 24,778**	**$ 32,612**	**$ 33,429**	**$ 817**	**2.5%**	**$ 8,651**	**34.9%**
Federal Revenues	**$ 5,386**	**$ 4,113**	**$ 4,496**	**$ 383**	**9.3%**	**$ (890)**	**-16.5%**
Total Operating Revenues	**$ 30,164**	**$ 36,725**	**$ 37,925**	**$ 1,200**	**3.3%**	**$ 7,761**	**25.7%**
Net Agency Appropriations Spent[2]	$ 24,610	$ 23,305	$ 24,046	$ 741	3.2%	$ (564)	-2.3%
Pension Contributions[3]	$ 3,680	$ 5,988	$ 6,093	$ 105	1.8%	$ 2,413	65.6%
Group Insurance	$ 885	$ 1,346	$ 1,475	$ 129	9.6%	$ 590	66.7%
Net Appropriations Spent	**$ 29,175**	**$ 30,639**	**$ 31,614**	**$ 975**	**3.2%**	**$ 2,439**	**8.4%**
Statutory Transfers Out[4]	**$ 4,827**	**$ 5,215**	**$ 6,481**	**$ 1,266**	**24.3%**	**$ 1,654**	**34.3%**
Total Operating Expenditures	**$ 34,002**	**$ 35,854**	**$ 38,095**	**$ 2,241**	**6.3%**	**$ 4,093**	**12.0%**
Operating Surplus (Deficit)	**$ (3,838)**	**$ 871**	**$ (170)**	**$ (1,041)**	**-119.5%**	**$ 3,668**	**-95.6%**
Borrowing for Operations	$ 5,426	$ -	$ 650	$ 650	na	$ (4,776)	-88.0%
Operating Surplus (Deficit) After Borrowing	$ 1,588	$ 871	$ 480	$ (391)	-44.9%	$ (1,108)	-69.8%
Accumulated Deficit from Prior Years	$ (6,095)	$ (3,988)	$ (3,117)	$ 871	-21.8%	$ 2,978	-48.9%
Total Deficit	**$ (4,507)**	**$ (3,117)**	**$ (2,637)**	**$ 480**	**-15.4%**	**$ 1,870**	**-41.5%**

[1]As of March 2014.
[2]FY2014 agency appropriations do not include $773 million in proposed supplemental appropriations but include $32.2 million of continuing appropriations.
[3]Pension contributions in FY2011 were made by issuance of pension obligation bonds.
[4]Includes $32 million in interest on interfund and short-term borrowing in FY2011.
Source: State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement*, April 10, 2014, pp. 14-15 and 31-32; Illinois State FY2015 Budget, p. 2-35; Illinois State FY2013 Budget, p. 2-31.

Illinois has dealt with its General Funds deficits by delaying payments and transfers to vendors, social service agencies, local governments and other State funds. Those bills and other payables are paid from the next year's revenues. Beginning in FY2013, the State's lapse period—the period after the end of the fiscal year during which this year's bills can be paid from next year's revenues—was permanently extended to six months.[108] The operating surplus of $480 million at the end of FY2015 would be used to reduce the State's General Funds payables to $2.8 billion from $3.3 billion at the end of FY2014.[109]

Certain General Funds liabilities have piled up outside of the budget. These costs, generally related to Medicaid and group health insurance, have been incurred in a given fiscal year but paid from future appropriations under exceptions to Section 25 of the State Finance Act.[110] This has allowed the State to mask budget deficits by appropriating an insufficient amount to cover Medicaid and group health insurance costs in one year, knowing that remaining bills could be paid in the next year. These State costs are known as Section 25 liabilities.

[108] 30 ILCS 105/25(m).
[109] This calculation is based on the assumption that proposed FY2014 supplemental appropriations of $773 million are not enacted. Not enacting the proposed supplemental appropriations reduces accounts payable in both FY2014 and FY2015 but increases other General Funds liabilities.
[110] 30 ILCS 105/25.

The ability to defer Medicaid bills in this way was curtailed by legislation enacted in 2012.[111] The legislation limited Section 25 liabilities incurred by the State's principal Medicaid agency, the Illinois Department of Healthcare and Family Services (HFS), to $700 million in FY2013 and $100 million thereafter, with certain exceptions.[112] Group health insurance liabilities were not limited by the law.

Another General Funds liability that is not displayed in the budget involves the Community Care Program at the Illinois Department on Aging, which is designed to allow seniors to stay out of nursing homes. Community Care was not covered by the Section 25 exception, but in recent years annual appropriation bills have allowed the program's prior year costs to be paid from the current year's funding. The FY2014 appropriation language did not include this provision.

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 tax refunds, primarily owed to businesses, peaked at $735 million at the end of FY2010.

In addition, the State owes approximately $112 million in back wages to union employees as a result of a dispute over cancelled raises.[113] A Cook County Circuit Court judge in December 2012 ordered the State to pay the back wages when funds were available, and the Governor agreed to make the payments as part of contract negotiations with the American Federation of State, County and Municipal Employees (AFSCME).[114] The General Assembly has not taken action on a bill to provide supplemental appropriations to pay the back wages.[115]

The following table shows General Funds payables and other liabilities from the end of FY2011 to the end of FY2015. In this report, the Governor's proposed FY2014 supplemental appropriations of $773 million are not reflected in the FY2014 budget because they have not been enacted. These appropriations include $112 million for back wages, $500 million to reduce the backlog of group health insurance bills and $93 million to pay down Medicaid bills. Because these costs will continue to be owed by the State, they are included in the table as other General Funds liabilities. The total backlog is projected to decline from an estimated $8.8 billion at the end of FY2012 to $5.1 billion at the end of FY2015.

[111] Public Act 97-0691, enacted on June 14, 2012.
[112] The main exception relates to bills incurred by the end of the fiscal year but not received until after June 30.
[113] State of Illinois, General Obligation Bonds, Series of February 2014, *Preliminary Official Statement*, January 24, 2014, p. 16.
[114] John O'Connor, "Quinn wants attorney general to drop back-pay lawsuit," *State Journal-Register*, April 25, 2013.
[115] 98th Illinois General Assembly, Senate Bill 2603, introduced on October 9, 2013.

State of Illinois Estimated Unpaid Bill Backlog at Fiscal Year End: FY2011-FY2015 (in $ millions)					
	FY2011	FY2012	FY2013	FY2014*	FY2015 Rec.
General Funds Payables	$ 4,976	$ 5,024	$ 4,142	$ 3,271	$ 2,791
Medicaid	$ 660	$ 2,301	$ 634	$ 390	$ 593
Community Care	$ 100	$ 173	$ -	$ -	$ -
Group Health Insurance	$ 1,049	$ 1,183	$ 1,351	$ 1,541	$ 1,541
Income Tax Refunds	$ 646	$ 72	$ 45	$ 41	$ 41
Back Wages Owed	$ -	$ -	$ 112	$ 112	$ 112
Total	**$ 7,431**	**$ 8,753**	**$ 6,284**	**$ 5,355**	**$ 5,078**

*Proposed supplemental appropriations of $773 million are not assumed to be enacted in FY2014. As a result, in FY2014 and FY2015 group health insurance payables are increased by $500 million, back wages owed are increased by $112 million and Medicaid payables are increased by $93 million.

Source: Civic Federation calculations based on State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement* , April 10, 2014, pp. 14-16, 53-54; Illinois State FY2015 Budget, p. 2-23; Illinois Office of the Comptroller, Section 25 Deferred Liabilities, http://www.ioc.state.il.us/index.cfm/fiscal-condition/section-25/download-pdf-section-25-deferred-liabilities-in-thousands/; Communication between Civic Federation and Governor's Office of Management and Budget, April 12, 2013; Communication between Civic Federation and Illinois Department of Revenue, September 4, 2012.

While data on General Funds payables are regularly provided in State budgets and State bond documents, the numbers on other General Funds liabilities represent Civic Federation estimates. The estimates are based on a variety of sources, including bond documents and information from the Governor's Office of Management and Budget, the Comptroller's Office and the Department of Revenue.

The FY2015 budget for the first time includes detailed information on other General Funds liabilities.[116] The additional information was required by a law enacted in 2013.[117] However, the new numbers in the FY2015 budget are not consistent with numbers in the FY2014 budget, State bond documents and the Governor's five-year blueprint issued in conjunction with the FY2015 budget.[118] The FY2015 budget does not describe the methodology used to calculate other General Funds liabilities or explain the inconsistencies.

For example, the FY2014 budget stated that unpaid bills totaled $8.7 billion at the end of FY2012.[119] The FY2015 budget puts the year-end FY2012 backlog at $8.1 billion.[120] The difference appears to be related to which Section 25 liabilities are considered to be obligations of General Funds, rather than obligations of other State funds. The State's bond documents have used even larger numbers in describing Section 25 liabilities.[121]

For FY2014 and FY2015, the FY2015 budget estimates the year-end backlogs at $5.4 billion and $5.1 billion, respectively.[122] The five-year blueprint puts the FY2014 backlog at $4.9 billion and the

[116] Illinois State FY2015 Budget, p. 2-23. The Governor's Office of Management and Budget also issued a report to the General Assembly on January 26, 2014 that gave a detailed monthly breakdown of other General Funds liabilities from December 2012 through December 2013.
[117] Public Act 98-0460, enacted on August 16, 2013.
[118] It is apparent that the FY2015 budget mistakenly transposes the FY2012 and FY2013 Section 25 liabilities, but this error does not explain the inconsistencies cited above.
[119] Illinois State FY2014 Budget, p. 2-3.
[120] Illinois State FY2015 Budget, p. 2-23.
[121] State of Illinois, General Obligation Bonds, Series of April 2014, *Official Statement*, April 10, 2014, p.53.
[122] Illinois State FY2015 Budget, p. 2-23.

FY2015 backlog at $4.4 billion. That difference appears to involve the inclusion or exclusion of certain bills held at HFS after the end of the fiscal year.

Five-Year Projections

As part of the FY2015 budget, the Governor provided separate five-year projections for both the recommended and not recommended budget proposals. The long-term outlook shows the implications of policy choices made in the FY2015 budget, including the extension of higher income tax rates. The recommended budget shows growth in both revenues and expenditures and uses moderate surpluses in the budget plan to pay down bills but does not eliminate them by FY2019.

Net agency appropriations are projected to increase by $3.6 billion from $23.2 billion in FY2014 to $26.8 billion in FY2019. Due to the savings from the new pension law, the State's required pension contributions decline by $969 million, or $15.6%, in FY2016 to $5.2 billion from $6.2 billion in FY2015.[123] The five-year projections show General Funds pension contributions totaling $5.8 billion in FY2019.

Despite the pension savings included in the projection and extension of the income tax increases, the recommended projections show only moderate surpluses from FY2015 through FY2019. These amounts are used to reduce the backlog of unpaid bills by $2.7 billion to $2.2 billion by FY2019 from $4.9 billion in FY2014.[124] The amounts repaid in FY2015 through FY2017 are accelerated through interfund borrowing.[125] The entire $480 million operating surplus in FY2015, which is used to pay down a portion of the backlog of unpaid bills, is made possible through interfund borrowing as is $325 million of both $580 million surplus in FY2016 and $471 million surplus in FY2017. The FY2016 and FY2017 interfund borrowing is repaid in FY2018 and FY2019.

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[123] No pension savings are taken in FY2015 from the new pension law, which is currently the subject of litigation.
[124] The gross backlog of unpaid bills is shown as $4.9 billion at the end of FY2014 in the Governor's five-year projection but totals $5.4 billion in the FY2015 budget document. The change in these liabilities is not explained.
[125] For more information about the Governor's interfund borrowing proposal, see page 6 of this report.

The following table shows the five-year projection of the Governor's recommended FY2015 budget through FY2019.

State of Illinois Governor's Five-Year General Funds Budget Projection (in $ millions)						
	FY2014 Revised	FY2015 Rec.	FY2016 Proj.	FY2017 Proj.	FY2018 Proj.	FY2019 Proj.
State Sources						
Individual Income Tax	$ 16,301	$ 17,206	$ 17,317	$ 17,846	$ 18,642	$ 19,410
Corporate Income Tax	$ 3,317	$ 3,421	$ 3,696	$ 3,934	$ 4,138	$ 4,337
Sales Taxes	$ 7,610	$ 7,847	$ 8,020	$ 8,265	$ 8,430	$ 8,599
Other State Taxes and Fees	$ 3,106	$ 3,020	$ 2,941	$ 2,924	$ 2,924	$ 2,924
Transfers In	$ 2,278	$ 2,585	$ 2,179	$ 2,200	$ 1,896	$ 1,918
Total State Sources	**$ 32,612**	**$ 34,079**	**$ 34,153**	**$ 35,169**	**$ 36,030**	**$ 37,188**
Federal Sources	**$ 4,113**	**$ 4,496**	**$ 4,455**	**$ 4,613**	**$ 4,778**	**$ 4,948**
Total Revenues	**$ 36,725**	**$ 38,575**	**$ 38,607**	**$ 39,782**	**$ 40,808**	**$ 42,136**
Agency Appropriations	$ 23,731	$ 24,530	$ 24,949	$ 25,744	$ 26,544	$ 27,352
Less Unspent Appropriations	$ (533)	$ (602)	$ (530)	$ (547)	$ (565)	$ (583)
Net Agency Appropriations	$ 23,198	$ 23,928	$ 24,419	$ 25,197	$ 25,979	$ 26,769
Pension Contributions	$ 6,096	$ 6,211	$ 5,242	$ 5,289	$ 5,433	$ 5,823
Group Insurance Payments	$ 1,346	$ 1,475	$ 1,530	$ 1,616	$ 1,697	$ 1,782
Total Spent Appropriations	**$ 30,640**	**$ 31,614**	**$ 31,190**	**$ 32,102**	**$ 33,108**	**$ 34,375**
Transfers Out						
Statutory Transfers Out	$ 2,933	$ 2,991	$ 3,081	$ 3,328	$ 3,397	$ 3,464
Debt Service on Pension Bonds	$ 1,657	$ 1,503	$ 1,418	$ 1,603	$ 1,573	$ 1,242
Other Debt Service	$ 625	$ 711	$ 738	$ 678	$ 739	$ 698
Property Tax Relief Fund		$ 1,275	$ 1,275	$ 1,275	$ 1,275	$ 1,275
Interfund Borrowing Repayment			$ 325	$ 325	$ 325	$ 325
Total Transfers Out	**$ 5,215**	**$ 6,480**	**$ 6,837**	**$ 7,209**	**$ 7,309**	**$ 7,004**
Supplemental Appropriations*	**$ 772**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Expenditures	**$ 36,627**	**$ 38,095**	**$ 38,027**	**$ 39,311**	**$ 40,417**	**$ 41,379**
Operating Surplus (Deficit)	**$ 99**	**$ 480**	**$ 580**	**$ 471**	**$ 392**	**$ 757**
Gross Bill Backlog at Year End	**$ (4,878)**	**$ (4,399)**	**$ (3,819)**	**$ (3,347)**	**$ (2,955)**	**$ (2,197)**

*Proposed supplemental appropriations not yet enacted, the amount in the five-year projections differs from $773 million included in the budget documents.

Source: Governor's Office of Management and Budget, State of Illinois, *Five Year Blueprint to Secure Illinois' Financial Future* , FY15-FY19, March 26, 2014. http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx (last visited on May 1, 2014)