The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

State of Illinois Enacted FY2015 Budget:

A Review of the Operating and Capital Budgets for the Current Fiscal Year

October 9, 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

This report examines the State of Illinois' operating and capital budgets as enacted for fiscal year 2015, which began on July 1, 2014 and ends on June 30, 2015. The State faced one overriding fiscal issue in FY2015: how to deal with the expected drop in revenues caused by the phaseout of temporary income tax rate increases enacted in 2011.

Under the 2011 law, the higher rates are scheduled to roll back on January 1, 2015. Largely as a result of the lower rates, income tax revenues are projected to decline by $1.9 billion, or 9.5%, from FY2014.

Rather than keeping the higher rates or cutting spending, the enacted General Funds budget for FY2015 relies on short-term measures—including borrowing and shifting revenue from FY2014—to cover operating expenses. After adjusting for shifting of funds from year to year and among State accounts, net spending in FY2015 increases by $528 million from FY2014.

Despite these increases, the budget underfunds known costs, including payroll, by an estimated $470 million. It also increases the State's backlog of unpaid bills by approximately $390 million to $6.4 billion at the end of FY2015.

This stopgap budget represents a return to detrimental fiscal policies for the State. In the past few years, Illinois has made strides by reining in agency expenses, reducing the unpaid bill backlog and fully accounting for previously hidden costs. The gimmicks used in FY2015 will make it even harder to balance the budget in FY2016, the first full fiscal year with lower income tax rates.

The State's financial outlook is further clouded by uncertainty about implementation of major pension changes enacted in December 2013. The new pension law has been put on hold, pending legal challenges, and the Illinois Supreme Court is expected to determine the statute's constitutionality.

The main findings of the analysis are the following:

- The backlog of unpaid bills and other General Funds liabilities is projected to total $6.4 billion at the end of FY2015, up from approximately $6.0 billion at the end of FY2014. This is the first year-end increase since FY2012, when the backlog was estimated at $8.8 billion.
- General Funds revenues decline by $1.7 billion to $35.1 billion in FY2015 from $36.8 billion in FY2014. This decline includes $402 million of income tax diversions in FY2015 that are used for additional education and human services funding outside the General Funds.
- The enacted FY2015 budget relies on borrowing $650 million from the State's Special Funds, which must be repaid within 18 months, to increase total General Funds resources to $35.8 billion.
- General Funds expenditures appear to decline by $1.1 billion from $36.8 billion in FY2014 to $35.8 billion in FY2015 but actually increase by $528 million due to shifting of funds from year to year and among State accounts.
    - FY2014 expenditures are inflated by a Medicaid appropriation of $600 million that will be used for FY2015 expenses, and FY2015 expenditures are reduced by $600 million due to transfers out that are not necessary due to the FY2014 funding.

- FY2015 expenditures are understated by $400 million because of the income tax diversions.[1]
- General Funds expenditure increases in FY2015 include $221.5 million related to new Medicaid legislation,[2] $119 million for group insurance, $57 million for State pension contributions, $50 million for the Chicago Public Schools' pension fund and $35 million for construction of a public school on Chicago's Southwest Side in the legislative district of the Speaker of the Illinois House of Representatives.

- The Governor's Office estimates that the FY2015 budget underfunds agency costs by about $470 million, including operational expenses of $130 million at the Illinois Department of Human Services and $90 million at the Illinois Department of Corrections and $60 million related to mental health grants at the Department of Human Services.
- Medicaid costs increase by $2.0 billion in FY2015, but most of the increase relates to a surge in newly eligible recipients under the Affordable Care Act, whose expenses are entirely covered by the federal government and do not affect General Funds.
- Group insurance costs were expected to increase by less than 1% in FY2015, with negotiated savings offsetting enrollment increases and medical inflation. However, State contributions will increase because of an Illinois Supreme Court ruling that struck down health insurance premium increases for retirees.
- State pension contributions from all funds would have declined by an estimated $1.2 billion in FY2016 under the new pension law compared with existing statutorily required contributions, but the law has been put on hold due to legal challenges. State contributions are expected to increase sharply in FY2016 from FY2015 due to reductions in the assumed rate of return on investment by the State's largest pension funds.
- Despite authorizing dedicated resources in FY2010 to pay for new capital bonds, the General Funds cost for capital purpose debt service is expected to increase for the second year in a row. In FY2014 the amount of General Funds transferred to pay for capital purpose bonds increased by $74 million to $625 million and increased by $92 million in FY2015 to $717 million.
- Total General Funds debt service costs in FY2015, including pension bonds, total $2.2 billion or 7.2% of total State-source General Funds revenues, which is down slightly from the total of $2.3 billion in FY2014.
- In FY2015 the State owes a total of $3.9 billion in debt service due on $31.3 billion of principal owed for all outstanding General Obligation Bonds and Build Illinois Bonds. It will pay $16.4 billion in interest on these bonds through FY2039 for a total outstanding debt service cost of $47.7 billion.
- The State's enacted capital budget for FY2015 totals $21.0 billion, of which $16.9 billion relates to reauthorized projects from previous years and $4.2 billion involves new projects. The State has sold nearly $12.0 billion in bonds to support the capital budget since FY2010 and in FY2015 the Capital Projects Fund is expected to have a $288.5 million shortfall in revenues to pay for the debt service cost related to these bonds, which will be paid for with General Funds.
- Illinois is the lowest rated state by all three major bond rating agencies with a negative outlook from each. If the State is downgraded four levels by Moody's (below Baa3) or three by either Fitch or Standard and Poor's (below BBB), it would face termination of its swaps portfolio and an estimated liability of $123.7 million as of the most recent valuation on June 30, 2013.

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[1] Although the revenue diversion is estimated at $402 million, a slightly smaller amount—$400 million—is appropriated to two newly created funds due to the diversion.
[2] Most of the Medicaid spending is reimbursable by the federal government at 50.76%, reducing net State costs to approximately $115 million.

BUDGET TIMELINE

In developing the State of Illinois' budget for fiscal year 2015, the Governor and General Assembly faced one overriding issue: how to deal with the expected drop in revenues caused by the phaseout of temporary income tax rate increases enacted in 2011.

Under the 2011 law, the rate increases are scheduled to begin rolling back on January 1, 2015, midway through the fiscal year that runs from July 1, 2014 to June 30, 2015.[3] Individual income tax rates that were raised from 3.0% to 5.0% decline to 3.75%; corporate tax rates that were increased from 4.8% to 7.0% drop to 5.25%.[4] As a result, income tax revenues deposited into the State's general operating accounts are projected to decline by $1.9 billion, or 9.5%.[5]

Despite a recommendation by Governor Pat Quinn that the rate increases be extended, the enacted FY2015 General Funds budget neither keeps the higher rates nor cuts spending.[6] It relies instead on short-term measures—including borrowing and shifting revenue from FY2014—to cover operating expenses in FY2015. The enacted budget also underfunds known costs, including payroll, by approximately $470 million, according to the Governor's Office.[7]

The General Assembly could make changes to the budget during the remainder of the fiscal year, but further action is expected to be delayed until after the November 4 election.[8]

Governor's FY2015 Budget Recommendation—March 26, 2014

Governor Quinn presented his FY2015 budget proposal on March 26, 2014.[9] Although State law requires the Governor to issue his annual budget recommendation by the third Wednesday in February—February 19 in 2014—the General Assembly has approved five delays in the last six years.[10] It was widely noted that the 2014 delay meant that the budget proposal would be unveiled after the primary election on March 18.[11]

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[3] Public Act 96-1496, enacted on January 13, 2011.

[4] In addition to these rates, corporations pay a Personal Property Replacement Tax (PPRT) of 2.5%, bringing the current total corporate income tax rate to 9.5%. The PPRT is collected by the State and distributed to local governments as a revenue source to replace a tax on the personal property of businesses that was abolished pursuant to the 1970 Illinois Constitution.

[5] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014, Table 1. These figures on income tax revenues refer to net income revenues deposited in General Funds. For more information on revenues, see page 11 of this report.

[6] 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.

[7] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.

[8] Ray Long, Monique Garcia and Maura Zurick, "State budget would put off tough decisions until after election," *Chicago Tribune*, May 27, 2014.

[9] Illinois State FY2015 Budget, March 26, 2014, http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx (last visited on August 27, 2014). For more information on the Governor's budget proposal, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Recommended Operating Budget: Analysis and Recommendations*, May 13, 2014, http://www.civicfed.org/sites/default/files/Illinois%20Recommended%20FY2015%20Budget.pdf.

[10] 15 ILCS 20/50-5(a). In the last six years, the Governor's budgets were issued on the following dates: March 18, 2009; March 10, 2010; February 16, 2011; February 22, 2012; March 6, 2013; and March 26, 2014.

[11] Jamey Dunn, "Budget address delayed until after primary election," *Illinois Issues Blog*, February 5, 2014.

Since the FY2012 budget, the Governor has been required to present a budget based only on existing revenue sources.[12] The Illinois Constitution and State law also require that the Governor's proposed budget be balanced, with proposed spending not exceeding estimated available resources.[13] In light of these requirements and the fiscal challenges facing the State, Governor Quinn took the unusual step of issuing two budget proposals for FY2015: a recommended budget and a not recommended budget.

The Governor's recommended FY2015 budget—based on an extension of existing income tax rates—showed General Funds revenues of $37.9 billion, up $1.2 billion, or 3.3%, from $36.7 billion in FY2014. The FY2015 budget proposed an increase of $1.5 billion, or 4.0%, in General Funds expenditures from FY2014. Operating expenditures for FY2014 included supplemental appropriations of $773 million proposed by the Governor but not enacted as of the date of his budget announcement. The proposed supplemental appropriations included approximately $500 million to reduce the backlog of unpaid group health insurance bills and $112 million to pay for back wages owed to union members due to a dispute over cancelled raises.[14]

The Governor's proposed spending increase in FY2015 was 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.[15] To close an operating deficit of $170 million and reduce the backlog of unpaid bills, the recommended budget included $650 million of borrowing from the State's Special Funds (known as interfund borrowing).

The not recommended budget—based on the scheduled rollback of income tax rates—showed a decline of $1.8 billion, or 4.9%, in General Funds revenues to $34.9 billion from $36.7 billion then estimated for FY2014. To balance the budget with reduced revenues, the not recommended budget reduced spending by $2.1 billion, or 5.6%, from FY2014.[16] The Governor treated certain expenditures as fixed or non-discretionary: pension contributions, group insurance payments, Medicaid spending and statutorily required transfers out of General Funds.[17] As a result, spending reductions in the not recommended budget were focused on education, human services and public safety. An operating surplus of $357 million was used to pay down accumulated bills.

The following table summarizes the Governor's recommended and not recommended budgets for FY2015 and compares them with the revised FY2014 budget (including proposed supplemental appropriations) as of the end of March 2014. Operating surpluses of $480 million and $357 million, respectively, reduce the accumulated deficits from prior years and result in total deficits of $3.4 billion and $3.5 billion.

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[12] 15 ILCS 20/50-5(a).

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

[14] State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, pp. 29-30.

[15] 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 was shown as an expenditure and revenues were increased to offset the revenue loss that would have resulted from the existing property tax credit. The total cost of the new program was $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) was $715 million.

[16] This spending reduction reflects proposed FY2014 supplemental appropriations of $773 million that had not been enacted.

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

Summary of State of Illinois General Funds Budget Plan: FY2014-FY2015 (in $ millions)			
	FY2014 Revised*	FY2015 Governor's Not Rec.	FY2015 Governor's Rec.
Operating Revenues	$ 36,725	$ 34,934	$ 37,925
Operating Expenditures*	$ 36,627	$ 34,577	$ 38,095
Operating Surplus (Deficit)	**$ 98**	**$ 357**	**$ (170)**
Borrowing for Operations	$ -	$ -	$ 650
Operating Surplus (Deficit) After Borrowing for Operations	$ 98	$ 357	$ 480
Accumulated Deficit from Prior Years	$ (3,988)	$ (3,890)	$ (3,890)
Total Surplus (Deficit) End of Year	**$ (3,890)**	**$ (3,533)**	**$ (3,410)**

*As of March 2014.

**Includes $773 million in proposed FY2014 supplemental appropriations.

Illinois has dealt with its General Funds deficits by delaying payments owed to vendors, social service agencies, pension funds, school districts and other units of government and making those payments from the next year's revenues. Since FY2010 the State has been allowed to wait until December 31—six months after the end of the fiscal year—to make payments covered by the current year's appropriations.[18] At the end of FY2015, General Funds bills and other payables would have been $3.6 billion under the Governor's recommended budget.[19]

Certain General Funds liabilities may be paid from future years' appropriations and thus are not shown in the current year's budget. These costs are now mainly related to group health insurance claims. Under the Governor's recommended budget, these liabilities would have added approximately $1.5 billion to the backlog of bills at the end of FY2015, bringing the total to roughly $5.1 billion.

Shortly after the release of the Governor's budget proposal, two credit rating firms issued reports stating that passage of the recommended budget would improve Illinois' fiscal condition.[20] Standard & Poor's wrote in April 2014 that Illinois was "approaching another critical juncture," in which "the next 50 days or so will [be] pivotal to the state's future structural budget alignment."[21]

General Assembly Budget Process—February 2014 through May 2014

Despite the delay in the Governor's budget proposal, the General Assembly moved forward with its budget process. The legislature is required by law and the Illinois Constitution to pass a balanced budget, but the wording is less restrictive than the requirement that applies to the Governor. While the Governor is required to propose expenditures that do not exceed available resources, the General

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[18] 30 ILCS 105/25 (b-2), (b-2.5), (b-2.6) and (m).
[19] For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Recommended Operating Budget: Analysis and Recommendations*, May 13, 2014, p. 34.
[20] Moody's Investors Service, *Illinois Tax-Rate Extension, Pension Reforms Would Reduce Fiscal Stress*, April 18, 2014; Standard & Poor's, *Developing Story: Illinois Is Facing Crucial Decisions As It Determines Its Credit Path*, April 9, 2014. The Civic Federation opposed the Governor's budget proposal because it used new revenues to increase expenditures rather than pay down outstanding bills. However, the Federation praised the Governor for addressing the State's fiscal cliff. For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2015 Recommended Operating Budget: Analysis and Recommendations*, May 13, 2014.
[21] Standard & Poor's, *Developing Story: Illinois Is Facing Crucial Decisions As It Determines Its Credit Path*, April 9, 2014.

Assembly is only required to maintain a balance between resources and appropriations.[22] Total expenditures from General Funds include transfers out as well as appropriations.[23]

In recent years, the legislature's budget has been based on revenue estimates developed by the House of Representatives in consultation with the General Assembly's Commission on Government Forecasting and Accountability (COGFA). On February 25, the House adopted a General Funds revenue estimate for FY2015 of $34.5 billion, which assumed that the rollback of the temporary income tax increases would take place as scheduled.[24] The estimate was $439 million below the revenue figure of $34.9 billion in the Governor's not recommended budget and $3.4 billion below the revenue figure of $37.9 billion in the recommended budget. The Senate adopted the revenue estimate on March 6.

After the Governor issued his recommended budget, leaders of the House and Senate expressed support for extending the tax rate increases.[25] Nevertheless, legislative budget hearings for several months focused on the impact of spending cuts that would be required if the tax rates were reduced.[26]

The General Assembly usually approves the budget in the final days of the spring session, which ends on May 31. After the end of May of one calendar year, a three-fifths vote of each chamber, rather than a simple majority, is required for legislation to be effective before June 1 of the next calendar year.

On May 15, the House narrowly approved appropriation bills based on extending the higher tax rates.[27] However, House Speaker Michael Madigan did not forward the bills to the Senate because he reportedly lacked nearly half the votes needed to extend the rates and provide revenue to support the spending.[28] On May 23, a spending plan based on the scheduled reduction to existing income tax rates, known as the doomsday budget, was rejected by the House on a vote of 5 to 107.[29]

A third set of FY2015 appropriation bills—described by House Speaker Madigan as a "middle-of-the-road" budget—was passed by the House on May 27.[30] Over the next few days, the House approved other legislation required to implement the budget, including $974 million in supplemental appropriations for FY2014.[31] Instead of reducing spending or extending existing income tax rates, the budget used interfund borrowing and larger than expected resources in FY2014 to cover operating expenses in FY2015.

On May 29, the House adopted a new estimate of FY2015 General Funds revenue.[32] Total resources were increased by $857 million to $35.4 billion from $34.5 billion in the previous estimate, largely

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[22] Illinois Constitution, Article VIII, Section 2(b); 15 ILCS 20/50-5(a).
[23] Transfers out of General Funds are used to make debt-service payments on previously issued bonds and for other legislatively required purposes. Transfers out in FY2014 are expected to total $5.2 billion.
[24] 98th Illinois General Assembly, House Joint Resolution 80, adopted by the House on February 25, 2014 and the Senate on March 6, 2014. For a listing of major budget-related resolutions and legislation for FY2015, see Appendix A of this report.
[25] Rick Pearson, Ray Long and Monique Garcia, "Keep tax hike or face stark cuts," *Chicago Tribune*, March 26, 2014.
[26] Jamey Dunn, "What to watch: budget edition," *Illinois Issues blog*, April 25, 2014.
[27] Monique Garcia, Ray Long and Michelle Manchir, "Illinois House takes up state budget," *Chicago Tribune*, May 15, 2014.
[28] Jamey Dunn, "Madigan tells House committees to craft a tax-rollback budget," *Illinois Issues blog*, May 21, 2014.
[29] Monique Garcia and Maura Zurick, "Illinois lawmakers head home without budget," *Chicago Tribune*, May 23, 2014.
[30] Dave McKinney, "Madigan: Tax extension dead, middle-of-the-road budget on deck," *Chicago Sun-Times*, May 27, 2014.
[31] State of Illinois, General Obligation Bonds, *Supplement to the Official Statement*, July 18, 2014.
[32] 98th Illinois General Assembly, House Joint Resolution 100, adopted by the house on May 29, 2014 and the Senate on May 30, 2014.

due to interfund borrowing of $650.0 million. The Senate adopted the new revenue estimate and appropriation bills on May 30 and other budget bills on May 31, the last day of the spring session.

The General Assembly passed a primary capital appropriations bill that re-authorized previous spending and included no new debt-funded projects.[33] The legislature approved an additional measure with $1.1 billion of new road projects,[34] along with new authority to issue long-term capital bonds.[35]

The main capital bill also included several items related to the operating budget: $35.0 million of General Funds appropriations to the Illinois Secretary of State's Office to be used to build a new public school in Speaker Madigan's district on the Southwest Side of Chicago;[36] $50.0 million of General Funds appropriations to the Public School Teachers' Pension and Retirement Fund of Chcaigo to assist with pension contributions;[37] and $50.0 million in supplemental appropriations to various agencies in FY2014 to pay part of the $112 million in union wages owed by the State as a result of a dispute over cancelled raises.[38]

The General Assembly's budget faced immediate criticism. Governor Quinn said in a statement that the budget was incomplete and postponed difficult decisions.[39] Moody's characterized the legislature's budget as a "credit negative."[40]

Other budget-related legislation passed during the spring session mandated stricter monitoring of the State's grant-making operations[41] and made major changes in the Medicaid program.[42] A budget-implementation measure required COGFA to report on the volatility of State revenue sources and the adequacy of the rainy day fund.[43] The General Assembly also approved the inclusion of an advisory referendum on the November ballot concerning the imposition of an additional 3% tax on individual income above $1 million.[44]

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[33] 98th Illinois General Assembly, House Bill 3793, passed by the House on May 28, 2014 and by the Senate on May 30, 2014 (Public Act 98-0675, signed with a line-item veto on June 30, 2014).

[34] 98th Illinois General Assembly, House Bill 3794, passed by the House on May 29, 2014 and by the Senate on May 31, 2014 (Public Act 98-0780, signed on July 22, 2014).

[35] 98th Illinois General Assembly, Senate Bill 3224, passed by the House and Senate on May 30, 2014 (Public Act 98-0781, signed on July 22, 2014).

[36] 98th Illinois General Assembly, House Bill 3793, passed by the House on May 28, 2014 and by the Senate on May 30, 2014 (Public Act 98-0675, signed with a line-item veto on June 30, 2014), p. 1138; Sara Burnett and Chacour Koop, Associated Press, "Tight Illinois budget sill contains pet projects," *Chicago Sun-Times*, July 6, 2014.

[37] 98th Illinois General Assembly, House Bill 3793, passed by the House on May 28, 2014 and by the Senate on May 30, 2014 (Public Act 98-0675, signed with a line-item veto on June 30, 2014), p. 1138.

[38] 98th Illinois General Assembly, House Bill 3793, passed by the House on May 28, 2014 and by the Senate on May 30, 2014 (Public Act 98-0675, signed with a line-item veto on June 30, 2014), pp. 1139-1140.

[39] Illinois Government News Network, "Governor Quinn Statement on Fiscal Year 2015 Budget," *news release*, May 30, 2014.

[40] Moody's Investors Service, *Illinois' Risk of Accounts Payable Growth Caused by Unbalanced Budget is Credit Negative*, June 3, 2014.

[41] 98th Illinois General Assembly, House Bill 2747, passed by the Senate on May 29, 2014 and by the House on May 30, 2014 (Public Act 98-0706, signed on July 16, 2014).

[42] 98th Illinois General Assembly, Senate Bill 741, passed by the House on May 28, 2014 and by the Senate on Senate on May 29, 2014 (Public Act 98-0651, signed on June 16, 2014).

[43] 98th Illinois General Assembly, Senate Bill 274, passed by the House and Senate on May 30, 2014 (Public Act 98-0682, signed on June 30, 2014).

[44] 98th Illinois General Assembly, House Bill 3816, passed by the House on May 23, 2014 and by the Senate on May 29, 2014 (Public Act 98-0794, signed on July 29, 2014).

Enacted Budget and Subsequent Developments—June 2014 to the Present

Governor Quinn signed most of the budget bills on June 30 and issued one veto, which did not affect the operating budget. The Governor vetoed a line in the primary capital appropriations bill that reauthorized spending $250 million for renovations to the State Capitol.[45]

The Governor's Office and the General Assembly appear to be at odds regarding the precise size of the enacted FY2015 General Funds budget. The State does not publish an enacted budget document similar to the Governor's recommended budget, but the Governor's Office of Management and Budget (GOMB) provides information on the enacted budget for State bond documents. Beginning with the FY2014 budget, GOMB has also been required to post enacted budget data on its website in downloadable format.[46]

GOMB puts total FY2015 General Funds resources at $35.764 billion and expenditures at $35.756 billion.[47] Resources consist of $35.114 billion in revenues and $650 million of interfund borrowing, according to GOMB.

The General Assembly appears to be using a different General Funds spending figure, and that number has changed over time. During budget deliberations in May, lawmakers referred to a $35.7 billion spending plan.[48] Lawmakers' newsletters cited the same number.[49] Recently legislative leaders have pointed to a $35.3 billion budget.[50] A $35.3 billion expenditure figure would match the estimate of FY2015 resources adopted by the General Assembly in May. As previously discussed, the General Assembly is technically required to balance resources only with appropriations, not total expenditures.

The legislature's official budget analysis is contained in COGFA's annual *Budget Summary* report. COGFA's report on the FY2015 budget, issued in August 2014, reviews the revenue total of $35.352 billion adopted by the legislature.[51] The COGFA report also shows GOMB's revenue and expenditure numbers.[52] However, the report does not analyze the discrepancies.

It appears that the revenue totals initially used by lawmakers might have included an estimated $402 million that is required to be diverted from General Funds and deposited into two new state funds and spent on education and human services.[53] In addition, GOMB's expenditure figure is based on estimated unspent appropriations of $334 million in FY2015, while the General Assembly apparently assumed $500 million in unused spending authority. A precise reconciliation is not possible because of lack of documentation from the General Assembly.

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[45] Public Act 98-0675, Governor's Message, June 30, 2014.
[46] 15 ILCS 20/50-35.
[47] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014, Table 1.
[48] Ray Long, Monique Garcia and Maura Zurick, "State budget would put off tough decisions until after election," *Chicago Tribune*, May 27, 2014.
[49] State Senator Heather Steans, "Budget Update and Upcoming Events," *newsletter*, June 3, 2014.
[50] State Representative Barbara Flynn Currie, "At what cost does our budget come?" *Hyde Park Herald*, August 26, 2014.
[51] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 25.
[52] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 26.
[53] 35 ILCS 5/901 (f) and (g).

The next table summarizes the FY2015 enacted budget plan as interpreted by GOMB and compares it with the Governor's recommended FY2015 budget and the latest version of the FY2014 budget as of June 2014.

Summary of State of Illinois General Funds Budget Plan: FY2014-FY2015 (in $ millions)			
	FY2014 Revised*	FY2015 Governor's Rec.	FY2015 Enacted
Operating Revenues	$ 36,768	$ 37,925	$ 35,114
Operating Expenditures	$ 36,827	$ 38,095	$ 35,756
Operating Surplus (Deficit)	$ (59)	$ (170)	$ (642)
Borrowing for Operations	$ -	$ 650	$ 650
Operating Surplus (Deficit) After Borrowing for Operations	$ (59)	$ 480	$ 8
Accumulated Deficit from Prior Years**	$ (3,988)	$ (3,890)	$ (4,047)
Total Surplus (Deficit) End of Year	**$ (4,047)**	**$ (3,410)**	**$ (4,039)**

*As of June 2014.

**The accumulated deficit is higher in the FY2015 enacted budget than the FY2015 recommended budget because the supplemental appropriations enacted in FY2014 were larger than those proposed by the Governor, resulting in an operating deficit for that year rather than a surplus. That operating deficit increased the end-of-year FY2014 total deficit and created a larger accumulated deficit at the start of FY2015.

Source: Illinois State FY2015 Budget, pp. 2-22 to 2-23; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Table 1.

Total General Funds expenditures are projected to decline by $1.1 billion from $36.8 billion in FY2014 to $35.8 billion in FY2015. Expenditures in FY2014 were boosted by $974 million in supplemental appropriations; of that total, $600 million will be deposited into the Healthcare Provider Relief Fund and used to pay for Medicaid expenses in FY2015.[54] Before the supplemental appropriations, the State was expected to end FY2014 with an operating surplus of $871 million. Due to the increased spending, GOMB now projects an operating deficit of $59 million in FY2014, adding to the backlog of end-of-year bills that must be paid using FY2015 revenues.

The FY2015 budget closes an initial operating deficit of $642 million with $650 million of interfund borrowing. The spending authorized in FY2015 results in an increase of roughly $400 million in unbudgeted costs that may be carried over into FY2016. According to GOMB, $470 million in other known expenses, including payroll, were not funded in the budget, requiring either a supplemental appropriation in FY2015 or a shutdown of programs.[55]

Days after the Governor signed the FY2015 budget, an Illinois Supreme Court opinion triggered widespread speculation that the high court might eventually reject major pension changes enacted in late 2013.[56] The July 3 ruling, relating to health insurance premium subsidies for State retirees, appeared to suggest that the Supreme Court might take an expansive view of the provision in the Illinois Constitution that protects pension benefits.[57] The new pension law did not affect the FY2015

[54] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.
[55] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.
[56] Monique Garcia, and Hal Dardick, "Supreme Court ruling signals trouble for state, Chicago," *Chicago Tribune*, July 3, 2014.
[57] Illinois Supreme Court, *Kanerva v. Weems* (2014 IL 115811, July 3, 2014).

budget but was expected to save the State approximately $1.2 billion on pension contributions in FY2016, mainly by reducing annual benefit increases.[58]

Since June of 2013, Illinois has had the lowest credit rating of any state from all three major rating firms.[59] In July 2014, citing the enacted FY2015 budget and the Supreme Court ruling, Standard & Poor's revised its outlook for Illinois from developing to negative.[60] A negative outlook means that the State's credit rating could be downgraded within two years unless its financial condition improves.

The FY2015 budget "is not structurally balanced and will contribute to growing deficits and payables that will likely pressure the state's liquidity," S&P stated.[61]

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[58] Commission on Government Forecasting and Accountability, *Segal Actuarial Cost Study on P.A. 98-0599 (SB 1)*, March 26, 2014, p. 1.
[59] Illinois' credit is rated A minus by Standard & Poor's and Fitch Ratings and A3 by Moody's Investors Service.
[60] Standard & Poor's, *Illinois Outlook Revised to Negative from Developing Following End of Fiscal 2015 Budget*, July 23, 2014.
[61] Standard & Poor's, *Illinois Outlook Revised to Negative from Developing Following End of Fiscal 2015 Budget*, July 23, 2014.

REVENUE

General Funds revenue that support the State of Illinois' annual operations in FY2015 are projected to total $35.1 billion, a decline of $1.7 billion from the total of $36.8 billion in FY2014.[62] The year-to-year decline is due to the partial expiration halfway through the fiscal year of the higher income tax rates passed in FY2011.[63]

The Governor's recommended FY2015 budget projected General Funds revenue totaling $37.9 billion if the higher income tax rates were extended.[64] However, the General Assembly passed a budget that neither addressed the roll back of income tax rates nor significantly reduced expenditures.

General Funds revenues are the source of funding over which the Governor and General Assembly have the most discretion during the annual appropriation process. The remaining revenues, designated as Other State Funds or Federal Funds, are earmarked for specific purposes outside of the General Funds budget.

The Governor's recommended FY2015 budget estimated that revenues for all appropriated funds would total $64.7 billion if the income tax rates were extended but would decline to $61.7 billion if no action was taken.[65] All Funds revenue was estimated to total $62.1 billion in FY2014 at the time the Governor's budget was published. Updated All Funds revenue estimates are not available for either year since the FY2015 budget was enacted.

In order to offset some of the anticipated decline in General Funds revenue for FY2015, the General Assembly approved borrowing up to $650 million from the balances in the State's Other Funds, known as interfund borrowing.[66] The Governor's FY2015 recommended budget proposed interfund borrowing in addition to extending the higher income tax rates.

General Funds Revenue

The largest source of General Funds revenue is income taxes, which make up more than half of the State's operating resources. Due to the reduction in rates halfway through FY2015, when the individual income tax rate declines from 5.0% to 3.75% and the corporate income tax rate is reduced from 7.0% to 5.25%, State-source operating revenue falls dramatically.

The second largest source of General Funds revenue is sales taxes. The State collects sales taxes at a rate of 6.25%, of which the State keeps the part equal to 5% of the purchase price and transfers the remaining 1.25% to local governments.

General Funds revenues also include federal revenues, which primarily represent reimbursements for Medicaid spending by the State. As of October 1, 2014, the federal government generally reimburses State Medicaid spending at a rate of 50.76%.[67]

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[62] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement,* July 18, 2014.
[63] Public Act 96-1496, enacted on January 13, 2011.
[64] Under Public Act 96-1496, the individual income tax rate was increased from 3.0% to 5.0% as of January 1, 2011 and is set to decline to 3.75% on January 1, 2015 and 3.25% on January 1, 2025. The corporate income tax rate was increased from 4.8% to 7.0% as of January 1, 2011 and is set to decline to 5.25% on January 1, 2015 and 4.8% on January 1, 2025.
[65] Illinois State FY2015 Budget, p 2-71.
[66] Public Act 98-0682, enacted June 30, 2014.
[67] State costs associated with newly eligible Medicaid recipients under the Affordable Care Act are reimbursed by the federal government at a rate of 100% but these costs and revenues are accounted for outside of the General Funds.

Among other sources, General Funds revenues also include public utility taxes, vehicle taxes, cigarette taxes, estate taxes and transfers from the lottery and gaming sources.

Fiscal Year 2014 Preliminary Results

Total General Funds revenues collected by the State in FY2014 exceeded the projections used by the General Assembly when developing the annual budget by $1.3 billion. The preliminary results for FY2014 total $36.8 billion compared to an original estimate of $35.4 billion.[68]

The preliminary results for income tax revenues improved more than any other source from the legislative projections passed in House Resolution 389 on May 31, 2013. General Funds revenues from income taxes were $839 million higher in FY2014 at $19.8 billion compared to the original projection of $19.0 billion. Sales tax revenues were $328 million higher at $7.7 billion in FY2014 compared to $7.3 billion in the legislative estimate.

The preliminary results for General Funds revenue in FY2014, published on July 18, 2014 in a supplemental bond disclosure by the State, were $43 million higher than the FY2014 estimate of $36.7 billion included in the Governor's FY2015 recommended budget, which was issued on March 26, 2014.

The following table shows the original General Funds revenue estimates used by the General Assembly to develop the FY2014 spending plan, the revised estimates from the Governor's recommended FY2015 budget and preliminary results available since close of the fiscal year.

State of Illinois General Funds Revenue: Estimates for FY2014 Compared to Preliminary Results (in $ millions)

	FY2014 HR389	FY2014 (March 2014)	FY2014 (June 2014)	$ Change HR389 to June 2014	% Change HR389 to June 2014
State Taxes					
Income Taxes (net)	$ 18,967	$ 19,618	$ 19,806	$ 839	4.3%
Personal (net)	$ 16,030	$ 16,301	$ 16,642	$ 612	3.8%
Corporate (net)	$ 2,937	$ 3,317	$ 3,164	$ 227	6.8%
Sales Taxes	$ 7,348	$ 7,610	$ 7,676	$ 328	4.3%
Public Utility Taxes	$ 1,032	$ 1,006	$ 1,013	$ (19)	-1.9%
Cigarette Tax	$ 355	$ 355	$ 353	$ (2)	-0.6%
Liquor Gallonage Taxes	$ 165	$ 166	$ 165	$ -	0.0%
Estate Tax	$ 210	$ 218	$ 276	$ 66	30.3%
Insurance Taxes & Fees	$ 350	$ 325	$ 333	$ (17)	-5.2%
Corporate Franchise Tax & Fees	$ 203	$ 203	$ 203	$ -	0.0%
Other Sources	$ 701	$ 833	$ 888	$ 187	22.4%
Total State Taxes	**$ 29,331**	**$ 30,334**	**$ 30,713**	**$ 1,382**	**4.6%**
Total Transfers	**$ 2,115**	**$ 2,278**	**$ 2,152**	**$ 37**	**1.6%**
State Revenues	**$ 31,446**	**$ 32,612**	**$ 32,865**	**$ 1,419**	**4.4%**
Federal Sources	**$ 4,000**	**$ 4,113**	**$ 3,903**	$ (97)	**-2.4%**
Total Revenue	**$ 35,446**	**$ 36,725**	**$ 36,768**	**$ 1,322**	**3.6%**

Source: 98th Illinois General Assembly, House Resolution 389, adopted May 31, 2013; Illinois State FY2015 Budget, March 26, 2014, p. 2-72; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014.

[68] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.

The State received a one-time surge of income tax revenues in April 2013, causing FY2013 General Funds revenue to exceed expectations by $1 billion from earlier estimates. This anomaly was attributed to taxpayer reactions to a change in federal capital gains tax rates and created uncertainty about the impact on State income tax revenues for FY2014. In order to compensate for the influence of the FY2013 surge in revenues, the General Assembly adopted a conservative projection for FY2014, which was actually below the FY2013 total of $36.4 billion. Preliminary results show total General Funds revenues in FY2014 exceeded FY2013 revenues by $405 million, or 1.1%.[69]

The additional General Funds revenues in FY2014 were used to fund a supplemental appropriations bill at the end of the fiscal year totaling $974 million, of which $600 million was deposited in a Medicaid fund to pay for FY2015 costs.[70]

Fiscal Year 2015 Projections

The General Assembly developed its FY2015 enacted budget based on a General Funds revenue estimate of $35.4 billion.[71] However, current estimates for General Funds revenues total $35.1 billion combined with interfund borrowing of $650 million for total resources of $35.8 billion. Including the borrowing for operations, FY2015 resources decline by $1.0 billion from the FY2014 total of $36.8 billion.[72]

Excluding the borrowing and federal revenues, State-source revenue in FY2015 is projected to decline by $3.1 billion to $30.6 billion in FY2015 from a total of $33.7 billion in FY2014. The largest contributor to the State-source loss is the decline in individual income tax revenues, which fall by $1.8 billion from $16.6 billion to $14.8 billion. This represents a year-to-year decline of 10.8% in the State's largest single revenue source. The decline in individual income tax revenues includes $402 million of income tax diversions in FY2015 that are used for additional education and human services funding outside the General Funds. Two new funds, the Fund for the Advancement of Education and the Commitment to Human Services Fund, will each receive 1/30 (about 3.33%) of net income tax revenues from individuals, trusts and estates annually through FY2024; in February 2025 the share increases to 1/26 (about 3.85%).[73] The total amount of the diversions in FY2015 has been estimated at $453 million by the Illinois Department of Revenue[74] and $402 million by the Commission on Government Forecasting and Accountability.[75]

Corporate income taxes decline by $93 million, or 2.9%, totaling $3.1 billion in FY2015 compared to $3.2 billion in FY2014.

Sales taxes are projected to increase by $171 million in FY2015, or 2.2%, totaling $7.8 billion compared to $7.7 billion in FY2014. However these gains are offset by losses in other State taxes and fees that decline by a combined total of $233 million.

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[69] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.
[70] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.
[71] 98th Illinois General Assembly, House Joint Resolution 100, adopted May 30, 2014.
[72] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.
[73] Net income tax refers to income tax collections minus statutorily required deductions of amounts used to cover tax refunds.
[74] Illinois Department of Revenue, *FY2015 Revenue Estimates*, February 4, 2014, pp. 7 and 16.
[75] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 25.

The following chart shows the most recent projections for the enacted FY2015 General Funds revenues compared to the preliminary results for FY2014.

State of Illinois General Funds Revenues: Preliminary FY2014 and Projected FY2015 (in $ millions)				
	FY2014	**FY2015**	**$ Change**	**% Change**
State Taxes				
Income Taxes (net)	$ 19,806	$ 17,916	$ (1,890)	-9.5%
Personal (net)	$ 16,642	$ 14,845	$ (1,797)	-10.8%
Corporate (net)	$ 3,164	$ 3,071	$ (93)	-2.9%
Sales Taxes	$ 7,676	$ 7,847	$ 171	2.2%
Public Utility Taxes	$ 1,013	$ 1,031	$ 18	1.8%
Cigarette Tax	$ 353	$ 355	$ 2	0.6%
Liquor Gallonage Taxes	$ 165	$ 167	$ 2	1.2%
Estate Tax	$ 276	$ 190	$ (86)	-31.2%
Insurance Taxes & Fees	$ 333	$ 325	$ (8)	-2.4%
Corporate Franchise Tax & Fees	$ 203	$ 201	$ (2)	-1.0%
Other Sources	$ 888	$ 751	$ (137)	-15.4%
Total State Taxes	**$ 31,523**	**$ 28,783**	**$ (2,740)**	**-8.7%**
Total Transfers	**$ 2,152**	**$ 1,835**	**$ (317)**	**-14.7%**
State Revenues	**$ 33,675**	**$ 30,618**	**$ (3,057)**	**-9.1%**
Federal Sources	**$ 3,093**	**$ 4,496**	**$ 1,403**	**45.4%**
Total Revenue	**$ 36,768**	**$ 35,114**	**$ (1,654)**	**-4.5%**
Interfund Borrowing	**$ -**	**$ 650**	**$ 650**	**na**
Total Including Interfund Borrowing	**$ 36,768**	**$ 35,764**	**$ (1,004)**	**-2.7%**

Source: State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014.

The corporate and individual income tax revenue estimates discussed in this section are net of amounts diverted to the Income Tax Refund Fund to pay for anticipated refunds. Each year diversion rates, known as Refund Fund rates, are determined in order to repay expected overpayment of taxes by individuals and corporations.

In FY2014 the individual income tax refunds were set aside at a rate of 9.5% and in FY2015 this rate is increased to 10.0%. The corporate income tax was diverted for refunds at a rate of 13.4% in FY2014, which is increased to 14.0% in FY2015.[76] The increase in these rates from FY2014 to FY2015 contributes to the year-to-year decline in income tax revenues available for General Funds operations.

Statutory transfers in to the General Funds decrease by $317 million, totaling $1.8 billion in FY2015 compared to $2.2 billion in FY2014; the decline is primarily due to the one-time transfer of $397 million from the Income Tax Refund Fund in FY2014. The surplus in the Income Tax Refund Fund is required to be transferred to the General Funds at the beginning of the next fiscal year. In FY2015 only $63.2 million was transferred into the General Funds from the surplus accumulated in FY2014. [77]

The rates were lowered in FY2014 in response to the surplus of $397 million that existed at the end of FY2013. In FY2013 the rates were 9.75% for the individual income tax and 14.0% for the corporate income tax.

[76] Public Act 98-0674, enacted on June 30, 2014.
[77] Communication between the Civic Federation and Illinois Department of Revenue, September 18, 2014.

Despite the surplus in FY2014, in FY2015 the rates are increased again due to the change in income tax rates. The midyear decline in gross receipts collected due to the lower income tax rates will lead to demand for refunds from a higher tax rate at the beginning of the year that must be paid by a lower amount collected in the second half of the year. By diverting revenues at the higher refund rates, which was also proposed in the Governor's recommended budget, the State aims to avoid increasing the backlog of unpaid refunds at the end of the fiscal year.[78]

Five-Year Comparison

The five fiscal years from FY2011 through FY2015 show the total impact of the higher income tax rates that took effect on January 1, 2011 through the partial roll back on January 1, 2015. General Funds revenues have increased dramatically during these years, netting a total of $31.5 billion in additional funds due to the higher rates over five years.[79]

In FY2015 State-source revenues are projected to be $5.9 billion, or 25.6% more than in FY2011, totaling $28.8 billion compared to $22.9 billion. The temporary increase in income tax rates had the largest effect on the change in General Funds revenues over this period.

In FY2011 income tax rates were 3.0% for individuals and 4.8% for corporations for the first half of the year and 5.0% for individuals and 7.0% for corporations for the second half. At these rates, the individual income tax totaled $11.2 billion and the corporate income tax was $1.9 billion for a combined total of $13.1 billion. In FY2015 the higher income tax rates will remain in place for only the first half of the fiscal year before declining to 3.75% for individuals and 5.25% for corporations. Individual income tax revenues are projected to be $3.6 billion higher in FY2015 than FY2011, totaling $14.8 billion. Corporate income tax revenues in FY2015 are projected to be $1.2 billion more than FY2011, totaling $3.1 billion. Total income taxes in FY2015 compared to FY2011 are $4.8 billion higher.

However, as discussed above, the FY2015 revenue projection is significantly lower than FY2014, the highest revenue year over the five-year period. Total General Funds revenues were $6.6 billion higher, or 21.9%, totaling $36.8 billion in FY2014 compared to $30.2 billion in FY2011. State-source revenues in FY2014 were $8.1 billion more than FY2011 but offset partial by a decline in federal revenues totaling $1.5 billion. Income taxes made up $6.7 billion of the increase in State-source revenues from FY2011 to FY2014.

Sales taxes, which remained at the same rate, increased by $1.0 billion and total $7.8 billion in FY2015 compared to $6.8 billion in FY2011. This represents total growth of 14.8% in sales tax revenues over the past five years. The remaining State-source General Funds revenue sources are relatively flat over the last five fiscal years. General Funds revenues provided by the federal government declined by $890 million, totaling $4.5 billion in FY2015 compared to $5.4 billion in FY2011.

[78] Illinois State FY2015 Budget, pp. 3-12, 3-13.
[79] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 19.

The following chart shows General Funds revenues from FY2011 through FY2015.

State of Illinois General Funds Revenue: Five-Year Comparison FY2011-FY2015 (in $ millions)							
	FY2011	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**$ Change**	**% Change**
State Taxes							
Income Tax	$13,076	$17,973	$19,715	$ 19,806	$17,916	$ 4,840.0	37.0%
Individual Income Tax (net)	$11,225	$15,512	$16,538	$ 16,642	$14,845	$ 3,620.0	32.2%
Corporate Income Tax (net)	$ 1,851	$ 2,461	$ 3,177	$ 3,164	$ 3,071	$ 1,220.0	65.9%
Sales Taxes	$ 6,833	$ 7,226	$ 7,355	$ 7,676	$ 7,847	$ 1,014.0	14.8%
Public Utility Taxes	$ 1,147	$ 995	$ 1,033	$ 1,013	$ 1,031	$ (116.0)	-10.1%
Cigarette Tax	$ 355	$ 354	$ 353	$ 353	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 157	$ 164	$ 165	$ 165	$ 167	$ 10.0	6.4%
Estate Tax	$ 122	$ 235	$ 293	$ 276	$ 190	$ 68.0	55.7%
Insurance Taxes & Fees	$ 317	$ 345	$ 334	$ 333	$ 325	$ 8.0	2.5%
Corporate Franchise Tax & Fees	$ 207	$ 192	$ 205	$ 203	$ 201	$ (6.0)	-2.9%
Other	$ 706	$ 766	$ 768	$ 888	$ 751	$ 45.0	6.4%
Total State Taxes	**$22,920**	**$28,250**	**$30,221**	**$ 30,713**	**$28,783**	**$ 5,863.0**	**25.6%**
Transfers In*	**$ 1,857**	**$ 1,691**	**$ 1,987**	**$ 2,152**	**$ 1,835**	**$ (22.0)**	**-1.2%**
Total State-Source Revenue	**$24,777**	**$29,941**	**$32,208**	**$ 32,865**	**$30,618**	**$ 5,841.0**	**23.6%**
Federal Sources	**$ 5,386**	**$ 3,681**	**$ 4,154**	**$ 3,903**	**$ 4,496**	**$ (890.0)**	**-16.5%**
Total Revenue	**$30,163**	**$33,622**	**$36,362**	**$ 36,768**	**$35,114**	**$ 4,951**	**16.4%**

*Excludes transfers from Backlog Payment Fund of $264 million in FY2013 and $50 million in FY2014, Includes Income Tax Refund Fund transfer of $397 million in FY2014. Excludes the interfund borrowing of $496 million in FY2011 and $650 million in FY2015.

State of Illinois, General Obligation Bonds, Series of February 2014, *Official Statement*, January 24, 2014, p. 13; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014.

In FY2016, when the lower income tax rates are in effect for an entire fiscal year, General Funds revenue is expected to decline again. Although new projections are not available, the Governor included a five-year projection accompanying the FY2015 recommended budget that showed FY2016 revenues totaling $31.8 billion if the income tax rates were allowed to decline.[80]

[80] Governor's Office of Management and Budget, *State of Illinois Not Recommended Five Year Projection*, March 26, 2014.

APPROPRIATIONS AND EXPENDITURES

The State of Illinois' enacted budget for FY2015 includes total appropriations of $66.4 billion, of which $31.5 billion are from General Funds.[81] An appropriation is spending authority given to an agency from a designated fund for a specific amount, purpose and time period.[82]

General Funds expenditures in FY2015 are estimated at $35.8 billion.[83] General Funds expenditures include both spending from appropriations and transfers out of General Funds to make interest and principal payments on previously sold bonds, provide funding for local governments and for other purposes.

General Funds represent the largest component of the State budget and are the funds over which the State has the most control.[84] They support the regular operating and administrative expenses of most agencies. General Funds resources include State income taxes and sales taxes as well as certain federal revenues, mainly related to federal reimbursements for State Medicaid spending.

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

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[81] Email communication between the Civic Federation and the Governor's Office of Management and Budget, July 28, 2014.
[82] Illinois State FY2015 Budget, p. 9-1.
[83] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014, Table 1.
[84] Illinois' General Funds consist of four funds: the General Revenue Fund, the Education Assistance Fund, the Common School Fund and the General Revenue-Common School Special Account Fund.

Appropriations by Fund Type

Total FY2015 appropriations of $66.4 billion are up 1.4% from $65.4 billion in FY2014 and 13.2% from $58.6 billion in FY2011. Pension contributions are included in General Funds appropriations in FY2011 for the purpose of comparability even though the State sold bonds to make its $3.68 billion in pension contributions for that fiscal year.

State of Illinois Appropriations by Fund: FY2011-FY2015 (in $ millions)							
	FY2011	FY2014 Revised*	FY2015 Enacted	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Funds**	$ 29,525	$ 32,114	$ 31,492	$ (622)	-1.9%	$ 1,967	6.7%
Other State Funds***	$ 18,883	$ 25,250	$ 26,980	$ 1,730	6.9%	$ 8,097	42.9%
Federal Funds	$ 10,206	$ 8,056	$ 7,881	$ (175)	-2.2%	$ (2,325)	-22.8%
Total	**$ 58,614**	**$ 65,420**	**$ 66,353**	**$ 933**	**1.4%**	**$ 7,739**	**13.2%**

*As of June 2014.

**For the purpose of comparability, General Funds appropriations in FY2011 include pension contributions of $3.68 billion made through issuance of General Obligation bonds.

***Other State Funds appropriations are reduced to avoid double counting of appropriations spent for services provided by revolving funds.

Source: Illinois State FY2013 Budget, p. 2-37; State of Illinois, General Obligation Bonds, Series of February 2014, *Official Statement* , February 6, 2014, p. 15; Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

General Funds appropriations decline by $622 million, or 1.9%, over the two-year period and increase by $2.0 billion, or 6.7% since FY2011. The decrease in General Funds appropriations from FY2014 to FY2015 reflects the use of FY2014 resources to pay for FY2015 expenses. As part of its FY2015 budget process, the General Assembly approved $974 million in supplemental appropriations from General Funds.[85] Of that total, $600 million was appropriated to the Illinois Department of Healthcare and Family Services (HFS) to be deposited into the Healthcare Provider Relief Fund and used to pay for Medicaid expenses in FY2015.[86]

Appropriations from Other State Funds of $27.0 billion in FY2015 are up by 6.9% from $25.3 billion in FY2014 and by 42.9% from $18.9 billion in FY2011. These appropriations accounted for 40.7% of total spending authority in FY2015, compared with 32.2% in FY2011. The increase in Other State Funds appropriations has been particularly marked in the area of Medicaid, where General Funds appropriations have been relatively flat.[87] Federal Funds appropriations decrease by 2.2% in the two-year period and by 22.8% over five years.

It should be noted that spending from Other State Funds and Federal Funds is often significantly below appropriated amounts. In FY2011, for example, expenditures from Other State Funds totaled $14.4 billion, 23.9% lower than appropriations of $18.9 billion.[88] Federal Funds spending was $5.5 billion in FY2011, 45.8% below appropriations of $10.2 billion.[89] Budget officials typically seek additional spending authority from Other State Funds and Federal Funds in case more resources

[85] Public Act 98-0642, signed on June 9, 2014, pp. 1-104; Public Act 98-0675, signed with a line-item veto on June 30, 2014, pp. 1139-1140.
[86] Public Act 98-0642, signed on June 9, 2014, p. 2.
[87] Resources for these appropriations come from General Funds and from other sources, such as an increase in tobacco taxes in FY2013.
[88] Illinois State FY2013 Budget, p. 2-37.
[89] Illinois State FY2013 Budget, p. 2-37.

become available during the year. Appropriations from these funds do not affect the operating deficit and are less politically sensitive than General Funds appropriations.

The State also spends somewhat less than the annually appropriated amount of General Funds. General Funds spending authority remains unused at the end of the year because insufficient resources are available or expenses do not reached budgeted levels. In FY2011, for example, unspent General Funds appropriations were $350 million, or 1.2% of that year's General Funds appropriations of $29.5 billion.[90]

The next table compares Governor Quinn's recommended appropriations for FY2015 with enacted FY2015 appropriations. General Funds appropriations are $725 million lower in the enacted budget, with the largest reductions in the areas of human services, education and corrections. Some of these agency reductions are offset by increased appropriations from Other State Funds.

State of Illinois Total Appropriations: FY2015 Recommended-FY2015 Enacted (in $ millions)

	FY2015 Rec.	FY2015 Enacted	$ Change	% Change
General Funds	$ 32,217	$ 31,492	$ (725)	-2.3%
Other State Funds*	$ 25,848	$ 26,980	$ 1,132	4.4%
Federal Funds	$ 7,867	$ 7,881	$ 14	0.2%
Total	**$ 65,932**	**$ 66,353**	**$ 421**	**0.6%**

*Other State Funds appropriations are reduced to avoid double counting of appropriations spent for services involving revolving funds.

Source: Illinois State FY2015 Budget, p. 2-41; Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

Beginning on February 1, 2015, State law requires that a specific share of income tax revenues from individuals, estates and trusts be diverted from General Funds to provide additional funding for education and human services.[91] Two new funds, the Fund for the Advancement of Education and the Commitment to Human Services Fund, will each receive 1/30 (about 3.33%) of net income tax revenues from individuals, trusts and estates annually through FY2024; in February 2025 the share increases to 1/26 (about 3.85%).[92] The total amount of the diversions in FY2015 has been estimated at $453 million by the Illinois Department of Revenue[93] and $402 million by the Commission on Government Forecasting and Accountability.[94]

The Governor's FY2015 recommended budget included the diversions in itemized agency General Funds appropriations for the State Board of Education and the Illinois Department of Human Services but deducted these amounts before computing total General Funds appropriations and did not add them to Other State Funds appropriations.[95] As a result, these amounts are not reflected at all in the Governor's budget proposal in the table above.

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[90] State of Illinois, General Obligation Bonds, Series of February 2014, *Official Statement*, February 6, 2014, p.13.
[91] Public Act 96-1496, signed on January 13, 2011. The provision can be found at 35 ILCS 5/901 (f) and (g).
[92] Net income tax refers to income tax collections minus statutorily required deductions of amounts used to cover tax refunds.
[93] Illinois Department of Revenue, *FY2015 Revenue Estimates*, February 4, 2014, pp. 7 and 16.
[94] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 25.
[95] Illinois State FY2015 Budget, p. 2-41.

In contrast, the enacted FY2015 budget includes the diversions as Other State Funds appropriations. A total of $200 million is appropriated from the Fund for the Advancement of Education to the Board of Education.[96] The Department of Human Services receives an appropriation of $101 million from the Commitment to Human Services Fund, and the Department on Aging receives $99 million.[97]

Other State Funds appropriations are also higher in the enacted budget than in the Governor's budget proposal because of an additional $600 million appropriation to the Hospital Provider Fund related to the hospital assessment program.[98] The hospital assessment program brings in federal Medicaid revenues for hospitals. The $600 million was appropriated for managed care plans but is designed to be paid back to hospitals to ensure that they do not suffer financially because of the State's increasing use of managed care for Medicaid recipients.[99]

General Funds Appropriations by Category

To analyze the sources of the State's spending pressures, General Funds appropriations can be divided into three components: agency appropriations, pension contributions and group insurance payments. The next table shows General Funds appropriations by category for FY2011, FY2014 and FY2015.

State of Illinois General Funds Appropriations by Category: FY2011-FY2015 (in $ millions)

	FY2011	FY2014 Revised*	FY2015 Enacted	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Agency Appropriations**	$ 24,960	$ 24,679	$ 23,881	$ (798)	-3.2%	$ (1,079)	-4.3%
Pension Contributions***	$ 3,680	$ 5,989	$ 6,046	$ 57	1.0%	$ 2,366	64.3%
Group Insurance	$ 885	$ 1,446	$ 1,565	$ 119	8.2%	$ 680	76.8%
Total	**$ 29,525**	**$ 32,114**	**$ 31,492**	**$ (622)**	**-1.9%**	**$ 1,967**	**6.7%**

*As of June 2014.

**FY2014 agency appropriations include $600 million to the Illinois Department of Healthcare and Family Services to be used for FY2015 expenses.

***Pension contributions in FY2011 were made by issuance of General Obligation bonds and are included as appropriations for the purpose of comparability.

Source: Illinois State FY2013 Budget, pp. 2-19, 2-31 and 2-37; Illinois State FY2015 Budget, p. 2-35; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Table 1; Public Act 98-0680; Public Act 98-0642; Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

General Funds agency appropriations decline by $798 million, or 3.2%, from FY2014 to FY2015 and by $1.1 billion, or 4.3%, over the five-year period. It must be noted, however, that the revised FY2014 budget includes $600 million in General Funds appropriations for HFS to be used in FY2015; as a result, the FY2014 figure is inflated by that amount.[100] In addition, decreases in General Funds appropriations for human services and education in FY2015 are offset by the diversions to newly created funds discussed above.

The major increase in General Funds appropriations from FY2011 to FY2015 involves statutorily required State pension contributions.[101] Contributions to the State's five retirement systems increase by $2.37 billion, or 64.3%, to $6.05 billion in FY2015 from $3.68 billion in FY2011. As previously

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[96] Public Act 98-0677, signed on June 30, 2014.
[97] Public Act 98-0680, signed on June 30, 2014, pp. 8 and 56.
[98] Public Act 98-0642, signed on June 9, 2014, p. 106.
[99] Public Act 98-0651, signed on June 16, 2014.
[100] The Governor's recommended FY2015 budget would have covered these expenses through a transfer out of General Funds in FY2015. This transfer out is eliminated in the enacted FY2015 budget.
[101] For more information on State pension funding, see p. 28 of this report.

explained, the FY2011 contributions were paid for through the sale of State bonds, rather than from General Funds, and are included for the purpose of comparability. Pension contributions in FY2015 are up by $57 million, or 1.0%, from $5.99 billion in FY2014.

Group insurance appropriations increase by $680 million, or 76.8%, to $1.57 billion in FY2015 from $885 million in FY2011 and by $119 million, or 8.2%, from $1.45 billion in FY2014. These numbers do not reflect the State's actual annual costs, however.[102] Group insurance, which consists mainly of health insurance payments for employees and retirees, was not adequately funded in FY2011. The result was an increase in the backlog of unpaid health insurance claims, which are among the State costs that may be paid out of future appropriations.[103] On the other hand, the group insurance appropriation for FY2015 was approximately $90 million above the estimated annual cost of the program and was to be used to reduce the backlog of claims. A recent court ruling suggests that State expenses may rise in FY2015 because retirees will be required to contribute less for health insurance premiums.[104]

[102] For more information on State group insurance, see p. 38 of this report.
[103] 30 ILCS 105/25(b-4).
[104] Doug Finke, "Court rules state retirees can stop paying health insurance premiums," *State Journal-Register*, August 28, 2014.

The following table compares the Governor's proposed FY2015 General Funds appropriations by category with enacted FY2015 appropriations by category.

State of Illinois General Funds Appropriations by Category: FY2015 Recommended-FY2015 Enacted (in $ millions)				
	FY2015 Rec.	FY2015 Enacted	$ Change	% Change
Agency Appropriations	$ 24,649	$ 23,881	$ (768)	-3.1%
Pension Contributions	$ 6,093	$ 6,046	$ (47)	-0.8%
Group Insurance	$ 1,475	$ 1,565	$ 90	6.1%
Total	**$ 32,217**	**$ 31,492**	**$ (725)**	**-2.3%**

Source: Illinois State FY2015 Budget, pp. 2-23, 2-35 and 2-41;Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014; Public Act 98-0680.

Agency appropriations decline by $768 million from the Governor's proposal to the enacted budget. The $47 million reduction in General Funds pension contributions reflects an increase to $197 million from $150 million in the amount contributed by the State Pensions Fund. The larger payment from the State Pensions Fund, which is funded from unclaimed property, reduces required General Funds contributions. The additional $90 million appropriation for group insurance in the enacted budget would have been used to reduce the backlog of health insurance claims but will probably be needed to cover increased State costs, as discussed above.

Appropriations by Agency

The table on page 26 shows appropriations by agency from FY2011 to FY2015 for the 10 largest agencies, ranked by total FY2015 appropriations. Agency appropriations do not include pension contributions or group insurance.

The largest agency is HFS, which administers the State's Medicaid program. Total FY2015 appropriations of $20.5 billion are up 1.9% from $20.2 billion in FY2014 and 22.5% from $16.8 billion in FY2011. General Funds appropriations to HFS decline by $325.5 million, or 4.3% from $7.6 billion in FY2014 to $7.3 billion in FY2015. As previously discussed, however, the decline reflects $600 million in FY2014 General Funds appropriations to be deposited into the Healthcare Provider Relief Fund for use in FY2015.[105] The decline is partly offset by $216.9 million in additional General Funds appropriations related to major Medicaid legislation discussed in more detail below.[106]

HFS appropriations from Other State Funds grow by $3.0 billion, or 31.1%, to $12.8 billion in FY2015 from $9.8 billion in FY2011. These appropriations account for 62.4% of the agency's spending authority in FY2015, up from 58.4% in FY2011. As noted above, $600 million of the Other State Funds appropriations in FY2015 are based on resources transferred out of General Funds in FY2014. The increase in Other State Funds appropriations from $12.1 billion in FY2014 to $12.8 billion in FY2015 reflects the additional $600 million appropriation to the Hospital Provider Fund related to the hospital assessment program.[107]

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[105] Public Act 98-0642, signed on June 9, 2014, p. 2.
[106] Public Act 98-0651, signed on June 16, 2014.
[107] Public Act 98-0642, signed on June 9, 2014, p. 106.

Total appropriations for elementary and secondary education increase by $77.7 million, or less than 1.0%, to $9.85 billion in FY2015 from $9.77 billion in FY2014. Since FY2011 total appropriations for education have declined by $1.4 billion, or 12.1%, with a decrease in funding from General Funds compounded by a reduction in federal funding due to the expiration of the American Recovery and Reinvestment Act of 2009. In FY2015 these reductions are more than offset by income tax diversions of $200 million from General Funds to the newly created Fund for the Advancement of Education to be spent on General State Aid.[108]

General State Aid, the main State spending program for elementary and secondary education, increases by $80.3 million, or 1.8%, to $4.52 billion in FY2015 from $4.44 billion in FY2014.[109] General State Aid payments are based on a Foundation Level of funding, which is established by statute and represents the minimum per child amount of financial support that should be available to provide for the basic education of each student.[110] General State Aid is designed to help fill the gap between the Foundation Level and the amount a school district can provide from local property tax revenues and other local resources. The Foundation Level has been unchanged since FY2010 at a per pupil amount of $6,119.[111] General State Aid funding for FY2015 represents 89.1% of the $5.07 billion that would have been required to fully fund the Foundation Level, according to the Illinois State Board of Education.[112] This share of Foundation Level funding is virtually flat from FY2014's 88.7% funding share.[113]

Total FY2015 appropriations for higher education of $2.4 billion are approximately the same as total FY2014 appropriations. Since FY2011 total appropriations for higher education have declined by $180.5 million, or 6.9%. Higher education includes nine public universities, the Illinois Board of Higher Education, the Illinois Community College Board, the Illinois Student Assistance Commission, the Illinois Mathematics and Science Academy and the State Universities Civic Service System.

The Illinois Department of Human Services (DHS) has total FY2015 appropriations of $6.1 billion. That represents a decrease of $113 million, or 1.8%, from $6.2 billion in FY2014 and a decrease of $339.2 million, or 5.3%, from $6.4 billion in FY2011. General Funds appropriations decline by $179.4 million in FY2015 to $3.1 billion from $3.3 billion in FY2014. The decrease is partly offset by an $88.9 million increase in Other State Funds. The increase in Other State Funds appropriations reflects the diversion of income tax revenues to the Commitment to Human Services Fund; services for the developmentally disabled will be paid for using $101 million from this fund.[114]

Total FY2015 appropriations to the Illinois Department of Corrections of $1.31 billion are down by 4.3% from FY2014 and by 1.3% from FY2011. Funding for the Illinois Department of Children and Family Services of $1.2 billion in FY2015 is approximately unchanged from FY2014 and down 7.3% from FY2011.

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[108] Public Act 98-0677, signed on June 30, 2014.
[109] Illinois State Board of Education, FY2015 Operating Budget: Public Act 98-677, June 30, 2013, http://www.isbe.net/budget/fy15/fy15-budget.pdf (last visited on September 10, 2014).
[110] 105 ILCS 5/18-8.05(B).
[111] Illinois State Board of Education, Division of Funding and Disbursement Services, *General State Aid*, October 1, 2013, http://www.isbe.net/funding/pdf/gsa-historical.pdf (last visited on September 10, 2014).
[112] Illinois State Board of Education, *Weekly Message*, September 8, 2014, p. 3.
[113] Illinois State Board of Education, *FY14 GSA Overview*, November 2013, p. 1, http://www.isbe.net/funding/pdf/gsa_overview.pdf (last visited on September 10, 2014).
[114] Public Act 98-0680, signed on June 30, 2014, p. 56.

Since FY2011 total appropriations to the Illinois Department on Aging have increased by 53.9% from $740.0 million to $1.1 billion in FY2015. Most of the Department on Aging's budget involves General Funds appropriations for the Community Care Program, which is designed to allow seniors to stay out of nursing homes. General Funds appropriations to the agency decline by $97.8 million in FY2015 but are offset by additional funding from income tax diversions deposited into the new Commitment to Human Services Fund.[115]

Three of the ten largest State agencies have no appropriations or relatively small appropriations from General Funds. The Illinois Department of Transportation is primarily supported by Other State Funds including the Road Fund, which is funded by motor fuel taxes and vehicle registrations, licenses and fees. The Department of Commerce and Economic Opportunity is mainly funded by federal grants. The Lottery Department, which receives no General Funds revenues, was established as a separate agency in 2011 to supervise the private manager chosen to run the State's lottery.[116]

[115] Public Act 98-0680, signed on June 30, 2014, p. 8.
[116] Public Act 97-0464, signed on August 19, 2011.

Agency	FY2011	FY2014 Revised[2]	FY2015 Enacted	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Healthcare and Family Services	**$ 16,760.3**	**$ 20,157.5**	**$ 20,535.6**	**$ 378.1**	**1.9%**	**$ 3,775.3**	**22.5%**
General Funds	$ 6,776.8	$ 7,638.6	$ 7,313.1	$ (325.5)	-4.3%	$ 536.3	7.9%
Other State Funds	$ 9,783.5	$ 12,118.9	$ 12,822.5	$ 703.6	5.8%	$ 3,039.0	31.1%
Federal Funds	$ 200.0	$ 400.0	$ 400.0	$ -	0.0%	$ 200.0	100.0%
State Board of Education	**$ 11,200.3**	**$ 9,771.7**	**$ 9,849.4**	**$ 77.7**	**0.8%**	**$ (1,350.9)**	**-12.1%**
General Funds	$ 7,019.8	$ 6,687.4	$ 6,605.3	$ (82.1)	-1.2%	$ (414.5)	-5.9%
Other State Funds	$ 53.9	$ 76.9	$ 267.6	$ 190.7	248.0%	$ 213.7	396.5%
Federal Funds	$ 4,127.2	$ 3,007.4	$ 2,976.5	$ (30.9)	-1.0%	$ (1,150.7)	-27.9%
Human Services	**$ 6,394.3**	**$ 6,168.1**	**$ 6,055.1**	**$ (113.0)**	**-1.8%**	**$ (339.2)**	**-5.3%**
General Funds	$ 3,901.5	$ 3,266.3	$ 3,086.9	$ (179.4)	-5.5%	$ (814.6)	-20.9%
Other State Funds	$ 779.3	$ 1,166.2	$ 1,255.1	$ 88.9	7.6%	$ 475.8	61.1%
Federal Funds	$ 1,713.6	$ 1,735.6	$ 1,713.1	$ (22.5)	-1.3%	$ (0.5)	0.0%
Transportation	**$ 2,557.8**	**$ 2,723.9**	**$ 2,778.5**	**$ 54.6**	**2.0%**	**$ 220.7**	**8.6%**
General Funds	$ 79.1	$ 22.2	$ 5.7	$ (16.5)	-74.3%	$ (73.4)	-92.8%
Other State Funds	$ 2,469.8	$ 2,697.0	$ 2,767.6	$ 70.6	2.6%	$ 297.8	12.1%
Federal Funds	$ 4.0	$ 4.7	$ 5.2	$ 0.5	10.6%	$ 1.2	30.0%
Higher Education[3]	**$ 2,628.9**	**$ 2,445.2**	**$ 2,448.4**	**$ 3.2**	**0.1%**	**$ (180.5)**	**-6.9%**
General Funds	$ 2,154.1	$ 1,991.3	$ 1,991.3	$ -	0.0%	$ (162.8)	-7.6%
Other State Funds	$ 88.9	$ 76.3	$ 78.4	$ 2.1	2.8%	$ (10.5)	-11.8%
Federal Funds	$ 385.9	$ 377.6	$ 378.7	$ 1.1	0.3%	$ (7.2)	-1.9%
Commerce and Economic Opportunity	**$ 2,408.1**	**$ 1,852.1**	**$ 1,765.4**	**$ (86.7)**	**-4.7%**	**$ (642.7)**	**-26.7%**
General Funds	$ 65.5	$ 44.1	$ 46.5	$ 2.4	5.4%	$ (19.0)	-29.0%
Other State Funds	$ 271.4	$ 442.9	$ 465.6	$ 22.7	5.1%	$ 194.2	71.6%
Federal Funds	$ 2,071.1	$ 1,365.2	$ 1,253.3	$ (111.9)	-8.2%	$ (817.8)	-39.5%
Corrections	**$ 1,328.4**	**$ 1,369.4**	**$ 1,310.5**	**$ (58.9)**	**-4.3%**	**$ (17.9)**	**-1.3%**
General Funds	$ 1,209.9	$ 1,277.7	$ 1,219.6	$ (58.1)	-4.5%	$ 9.7	0.8%
Other State Funds	$ 118.5	$ 91.7	$ 90.9	$ (0.8)	-0.9%	$ (27.6)	-23.3%
Federal Funds	$ -	$ -	$ -	$ -	na	$ -	na
Lottery[4]	**$ 457.8**	**$ 1,229.9**	**$ 1,226.9**	**$ (3.0)**	**-0.2%**	**$ 769.1**	**168.0%**
General Funds	$ -	$ -	$ -	$ -	na	$ -	na
Other State Funds	$ 457.8	$ 1,229.9	$ 1,226.9	$ (3.0)	-0.2%	$ 769.1	168.0%
Federal Funds	$ -	$ -	$ -	$ -	na	$ -	na
Children and Family Services	**$ 1,274.4**	**$ 1,181.7**	**$ 1,181.6**	**$ (0.1)**	**0.0%**	**$ (92.8)**	**-7.3%**
General Funds	$ 846.5	$ 696.0	$ 696.0	$ -	0.0%	$ (150.5)	-17.8%
Other State Funds	$ 419.7	$ 459.9	$ 475.0	$ 15.1	3.3%	$ 55.3	13.2%
Federal Funds	$ 8.1	$ 7.7	$ 10.6	$ 2.9	37.7%	$ 2.5	30.9%
Aging	**$ 740.0**	**$ 1,121.4**	**$ 1,138.6**	**$ 17.2**	**1.5%**	**$ 398.6**	**53.9%**
General Funds	$ 650.6	$ 1,030.9	$ 933.1	$ (97.8)	-9.5%	$ 282.5	43.4%
Other State Funds	$ 9.2	$ 4.9	$ 103.9	$ 99.0	2,020.4%	$ 94.7	1,029.3%
Federal Funds	$ 80.2	$ 85.6	$ 101.6	$ 16.0	18.7%	$ 21.4	26.7%

State of Illinois All Funds Appropriations for Ten Largest Agencies: FY2011-FY2015 (in $ millions)[1]

[1]Does not include pension contributions, State group insurance or debt service.
[2]As of July 2014.
[3]Includes nine public universities, Board of Higher Education, Community College Board, Student Assistance Commission, Mathematics and Science Academy and State Universities Civil Service System.
[4]Created in 2011, after a private firm began managing lottery operations.
Source: Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014; Illinois State FY2013 Budget, pp. 2-29 to 2-37.

Two agencies that are not among the ten largest show significant increases in total appropriations due to higher General Funds spending authority. The Illinois Secretary of State's General Funds appropriations increase by $35.0 million to $294.3 million in FY2015 from $259.3 million in FY2014, reflecting an appropriation in the capital bill for a grant to build a new public school in House Speaker Michael Madigan's district on the Southwest Side of Chicago.[117] The Illinois Supreme Court's General Funds appropriations rise by $42 million to $344.8 million in FY2015 from $302.3 million in

[117] Public Act 98-0675, signed with a line-item veto on June 30, 2014, p. 1138; Sara Burnett and Chacour Koop, Associated Press, "Tight Illinois budget still contains pet projects," *Chicago Sun-Times*, July 6, 2014.

FY2014. The spending authorization is in the form of a lump sum, rather than specific line items, giving the high court discretion in how the money is used.[118]

Another smaller agency, the Illinois Office of the Comptroller, has a $49.8 million decline in total appropriations from $161.4 million in FY2014 to $111.6 million in FY2015. The decrease consists of a $70.0 million reduction in General Funds appropriations and a $20.3 million increase in Other State Funds appropriations. Of the General Funds reduction, $50.0 million is related to an FY2014 appropriation to be used to pay off outstanding State bills that was not repeated in FY2015.[119] The other $20.0 million involves funding for court reporters, which is shifted from General Funds to Other State Funds, specifically the Personal Property Replacement Tax (PPRT) Fund.[120] The PPRT, which was created by the General Assembly in 1979 to replace a tax on the personal property of businesses that was abolished pursuant to the 1970 Illinois Constitution, is mainly a revenue source for local governments.

The Governor's recommended budget for FY2015 included $768 million more in General Funds agency appropriations than the FY2015 enacted budget. These decreases are partially offset by total appropriations of $400 million to the Fund for the Advancement of Education and the Commitment to Human Services Fund, which are funded by income tax diversions from General Funds.

The State Board of Education, for example, has total General Funds appropriations of $6.98 billion in the Governor's proposal, compared with $6.61 in the FY2015 enacted budget. The decrease of $373 million is partly offset by $200.0 million in funding from the Fund for the Advancement of Education in the enacted budget.[121]

General Funds appropriations to the Department of Human Services decline from $3.68 billion in the Governor's recommended FY2015 budget to $3.09 billion in the enacted budget. Funding of $101.0 million from the Commitment to Human Services Fund partly offsets the decrease of $593.8 million.[122] The Department on Aging has a decrease of $236.8 million in General Funds appropriations from $1.2 billion in the Governor's proposed FY2015 budget to $933.1 million in the enacted budget. This is partially offset by $99.0 million from the Commitment to Human Services Fund.[123]

General Funds appropriations for higher education decline by $52.7 million from the Governor's proposed budget. The Governor recommended an increase of $50 million in General Funds appropriations for the Monetary Award Program (MAP),[124] but the program's funding in the FY2015 budget remains unchanged from FY2014 at $373.3 million.[125] MAP provides scholarship grants to Illinois residents who attend approved Illinois colleges and demonstrate financial need.[126]

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[118] Public Act 98-0679, signed on June 30, 2014, p. 244. See also Senate Republican Leader Christine Radogno, *At A Glance: An Overview of the 2014 Spring Session*, July 3, 2014.
[119] Senate Republican Leader Christine Radogno, *At A Glance: An Overview of the 2014 Spring Session*, July 3, 2014.
[120] Public Act 98-0679, signed on June 30, 2014. See also Senate Republican Leader Christine Radogno, *At A Glance: An Overview of the 2014 Spring Session*, July 3, 2014.
[121] Public Act 98-0677, signed on June 30, 2014.
[122] Public Act 98-0680, signed on June 30, 2014, p. 56.
[123] Public Act 98-0680, signed on June 30, 2014, p. 8.
[124] Illinois State FY2015 Budget, p. 6-323.
[125] Public Act 98-0678, signed on June 30, 2014.
[126] Illinois Student Assistance Commission, *Monetary Award Program (MAP)*, http://www.isac.org/students/during-college/types-of-financial-aid/grants/monetary-award-program.html (last visited on September 11, 2014).

The Department of Corrections, with FY2015 General Funds appropriations of $1.22 billion, has a reduction of $88.3 million compared with the Governor's proposal. The Department of Children and Family Services receives General Funds appropriations of $696 million in the enacted FY2015 budget, down by $12.5 million from the Governor's proposal.

In contrast, total appropriations to HFS at $20.5 billion in the enacted FY2015 budget are $793.1 million, or 4.0%, higher than in the Governor's recommended budget. The increases reflect changes authorized by major Medicaid legislation approved during the General Assembly's spring session.[127] The legislation authorized $216.9 million in additional HFS General Funds spending. It also authorized $600 million in Other State Funds appropriations for managed care plans under the hospital assessment program. These funds—which are designed to be paid back to hospitals to ensure that they do not suffer financially because of the State's increasing use of managed care for Medicaid recipients—do not affect State resources. Under the hospital assessment program, taxes paid by hospitals are used to draw federal matching funds; most of the hospitals' payments, along with the federal reimbursements, are returned to the hospitals.

[127] Public Act 98-0651, signed on June 16, 2014.

The next table compares FY2015 appropriations for the ten largest agencies in the Governor's recommended budget and the enacted budget.

State of Illinois All Funds Appropriations for Ten Largest Agencies: Recommended FY2015-Enacted FY2015 (in $ millions)*				
Agency	FY2015 Rec.	FY2015 Enacted	$ Change	% Change
Healthcare and Family Services	**$ 19,742.5**	**$ 20,535.6**	**$ 793.1**	**4.0%**
General Funds	$ 7,135.1	$ 7,313.1	$ 178.0	2.5%
Other State Funds	$ 12,207.5	$ 12,822.5	$ 615.0	5.0%
Federal Funds	$ 400.0	$ 400.0	$ -	0.0%
State Board of Education	**$ 10,017.4**	**$ 9,849.4**	**$ (168.0)**	**-1.7%**
General Funds	$ 6,978.3	$ 6,605.3	$ (373.0)	-5.3%
Other State Funds	$ 64.7	$ 267.6	$ 202.9	313.6%
Federal Funds	$ 2,974.4	$ 2,976.5	$ 2.1	0.1%
Human Services	**$ 6,539.7**	**$ 6,055.1**	**$ (484.6)**	**-7.4%**
General Funds	$ 3,680.7	$ 3,086.9	$ (593.8)	-16.1%
Other State Funds	$ 1,153.9	$ 1,255.1	$ 101.2	8.8%
Federal Funds	$ 1,705.1	$ 1,713.1	$ 8.0	0.5%
Transportation	**$ 2,758.2**	**$ 2,778.5**	**$ 20.3**	**0.7%**
General Funds	$ 5.0	$ 5.7	$ 0.7	14.0%
Other State Funds	$ 2,748.1	$ 2,767.6	$ 19.5	0.7%
Federal Funds	$ 5.1	$ 5.2	$ 0.1	2.0%
Higher Education**	**$ 2,494.5**	**$ 2,448.4**	**$ (46.1)**	**-1.8%**
General Funds	$ 2,044.0	$ 1,991.3	$ (52.7)	-2.6%
Other State Funds	$ 71.8	$ 78.4	$ 6.6	9.2%
Federal Funds	$ 378.0	$ 378.7	$ 0.7	0.2%
Commerce and Economic Opportunity	**$ 1,779.5**	**$ 1,765.4**	**$ (14.1)**	**-0.8%**
General Funds	$ 69.7	$ 46.5	$ (23.2)	-33.3%
Other State Funds	$ 459.4	$ 465.6	$ 6.2	1.3%
Federal Funds	$ 1,250.3	$ 1,253.3	$ 3.0	0.2%
Corrections	**$ 1,398.9**	**$ 1,310.5**	**$ (88.4)**	**-6.3%**
General Funds	$ 1,307.9	$ 1,219.6	$ (88.3)	-6.8%
Other State Funds	$ 90.9	$ 90.9	$ -	0.0%
Federal Funds	$ -	$ -	$ -	na
Lottery	**$ 1,227.0**	**$ 1,226.9**	**$ (0.1)**	**0.0%**
General Funds	$ -	$ -	$ -	na
Other State Funds	$ 1,227.0	$ 1,226.9	$ (0.1)	0.0%
Federal Funds	$ -	$ -	$ -	na
Children and Family Services	**$ 1,194.2**	**$ 1,181.6**	**$ (12.6)**	**-1.1%**
General Funds	$ 708.5	$ 696.0	$ (12.5)	-1.8%
Other State Funds	$ 475.0	$ 475.0	$ -	0.0%
Federal Funds	$ 10.6	$ 10.6	$ -	0.0%
Aging	**$ 1,276.5**	**$ 1,138.6**	**$ (137.9)**	**-10.8%**
General Funds	$ 1,169.9	$ 933.1	$ (236.8)	-20.2%
Other State Funds	$ 4.9	$ 103.9	$ 99.0	2,020.4%
Federal Funds	$ 101.6	$ 101.6	$ -	0.0%

*Does not include pension contributions, State group insurance or debt service.

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

Source: Illinois State FY2015 Budget, pp. 2-33 to 2-41; Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

The Illinois Secretary of State's Office and the Illinois Supreme Court also receive significantly higher General Funds appropriations than were recommended in the Governor's budget proposal. As described above, enacted appropriations to the Secretary of State include $35.0 million in the capital bill for a grant to build a new public school in House Speaker Madigan's Chicago district.[128] The Illinois Supreme Court, as part of its lump-sum budget, has General Funds appropriations that are $43.0 million higher than the Governor's recommendation.[129]

Pensions

General Funds contributions to the State's five retirement systems are $6.05 billion in FY2015, or 19.7% of projected State-source General Funds revenues of $30.6 billion.[130] Total General Funds pension costs, including $1.5 billion in principal and interest payments on previously issued pension bonds, are $7.5 billion, or 24.7% of State-source revenues.[131]

Beginning in FY1996, State pension contributions have been based on a 50-year funding plan.[132] After a 15-year phase-in period, the law required the State to contribute a level percentage of payroll sufficient to bring the retirement systems' funded ratios to 90% by FY2045.[133]

When the funding plan began, the total unfunded liability of the five systems stood at approximately $19.5 billion.[134] By the end of FY2013, the unfunded liability had grown to $97.5 billion, based on the market value of assets, and the combined funded ratio stood at 41.1%.[135] Illinois has the most underfunded retirement systems of any state[136] and the largest pension burden relative to State revenues.[137]

The growth in the unfunded liability is largely attributable to inadequate State contributions. The funding plan and subsequently enacted changes deferred a large portion of the required State contributions to later years. The unfunded liability has also increased because of lower than expected investment returns, enhanced benefits and changes in mortality rates and other factors.[138]

The 1995 funding schedule does not require the State to make adequate contributions to keep the unfunded liability from growing until approximately FY2030.[139] Statutorily required State

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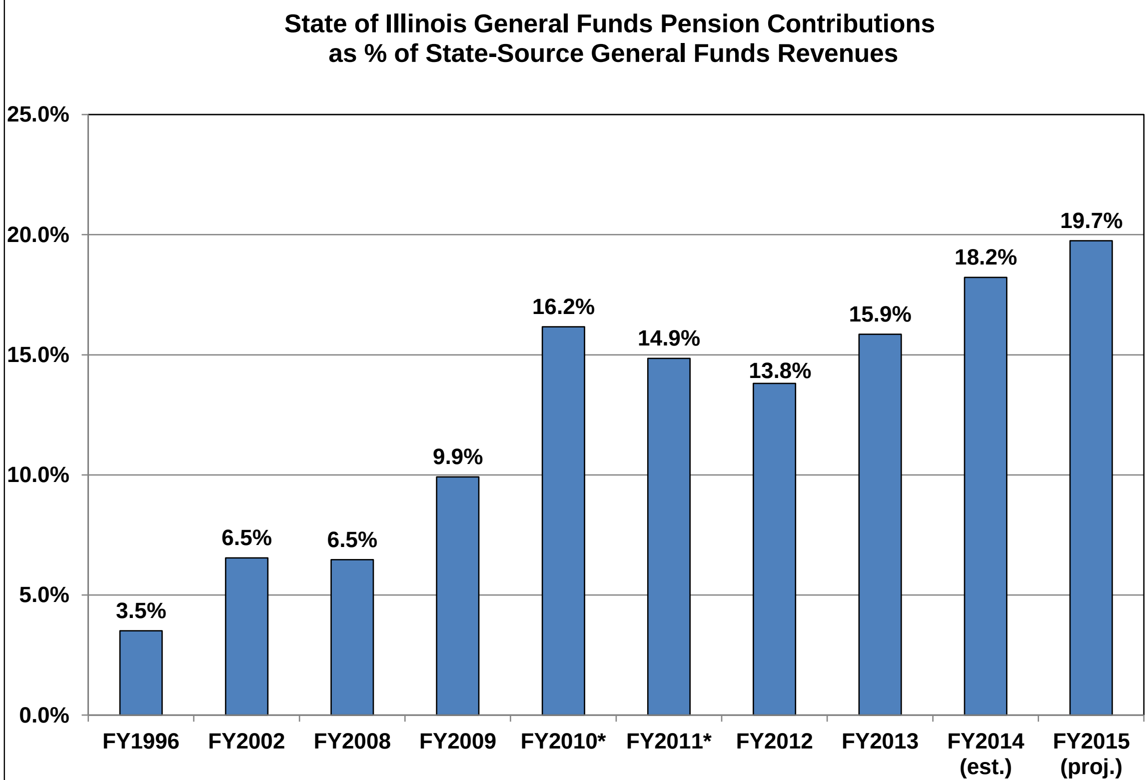
128 Public Act 98-0675, signed with a line-item veto on June 30, 2014, p. 1138; Sara Burnett and Chacour Koop, Associated Press, "Tight Illinois budget still contains pet projects," *Chicago Sun-Times*, July 6, 2014.
129 Public Act 98-0679, signed on June 30, 2014, p. 244. See also Senate Republican Leader Christine Radogno, *At A Glance: An Overview of the 2014 Spring Session*, July 3, 2014.
130 State of Illinois, General Obligation Bonds, *Supplement to Official Statement*, July 18, 2014, Table 1.
131 State of Illinois, General Obligation Bonds, *Supplement to Official Statement*, July 18, 2014, Table 1.
132 Public Act 88-0593, signed on August 22, 1994.
133 The funded ratio shows the percentage of accrued pension liability covered by pension assets and is a commonly used measure of the financial health of a retirement system.
134 Commission on Government Forecasting and Accountability, *Report on the 90% Funding Target of Public Act 88-0593*, January 2006, p. i.. Unfunded liability is the actuarial value of accrued pension benefits that are not covered by pension assets. A pension fund is considered 100% funded when its asset level equals the actuarial accrued liability. This statistic is based on the purchase price (or book value) of assets.
135 State of Illinois, General Obligation Bonds, Series of May 2014, Official Statement, April 25, 2014, p. 80.
136 Pew Center on the States, *The Widening Gap Update*, June 2012, p. 5.
137 Moody's Investors Service, *Illinois State and Local Governments Face Daunting Pension Challenges*, September 5, 2014, p. 2.
138 Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 137.
139 Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 137. The contribution amount that is adequate to keep the unfunded liability from growing consists of the normal cost (the amount needed to cover the present value of benefits earned by system members in each fiscal year) plus interest on the unfunded liability. This contribution, while adequate to prevent growth in the unfunded liability, is not enough to pay down the unfunded liability.

contributions have also been less than those required under the reporting standards of the Governmental Accounting Standards Board.[140]

The next table shows General Funds pension contributions as a percentage of State-source General Funds revenues for selected years beginning in FY1996. Approximately 89% of total contributions come from General Funds.[141] State-source General Funds revenues are net of federal funds, which are mainly related to federal reimbursements for State Medicaid spending. Pension contributions in FY2010 and FY2011 were made through the sale of General Obligation bonds and are included in the chart for the purpose of comparability.



*Pension contributions in FY2010 and FY2011 were made by issuance of General Obligation bonds.
See Appendix B for data and sources.

Under the funding plan, the State's annual General Funds pension contributions grew from $513 million, or 3.5% of State-Source revenues, in FY1996 to $6.046 billion, or 19.7% of projected revenues, in FY2015.[142] The decline in the share of resources consumed by pensions after FY2010 reflects the increase in income tax rates midway through FY2011. The higher tax rates are scheduled to expire halfway through FY2015, leading to a sharp rise in the share of revenues devoted to pensions in the current fiscal year, even though General Funds contributions increase by only $57 million. In FY2013 and FY2014, the percentage of State-source revenues devoted to pensions rose because of significant increases in statutorily required pension contributions.

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[140] State of Illinois, General Obligation Bonds, Series of May 2014, Official Statement, April 25, 2014, pp. 70-71.
[141] State of Illinois, General Obligation Bonds, Series of May 2014, Official Statement, April 25, 2014, p. 20.
[142] For data on annual General Funds pension contributions and State-source revenues, see Appendix B of this report.

In FY2014 General Funds pension contributions increased by $882 million, or 17.3%, to $5.989 billion from $5.107 billion in FY2013. The jump was largely due to poor investment returns at all of the systems in FY2012 and to revised actuarial assumptions by the Teachers' Retirement System (TRS), the largest State fund. The TRS Board decided in September 2012 to reduce the system's assumed investment rate of return to 8.0% from 8.5%. The assumed rate of return is used to determine the present value of pension obligations; lowering the rate increases the need for other sources of funding to pay for pension benefits. The decision affected required State contributions in FY2014 because the retirement systems make a preliminary certification of the amounts needed in each fiscal year by November of the prior fiscal year.[143]

After analyzing how much of the State's future revenues would have to go toward pension costs under the funding plan, the TRS Board of Trustees approved a resolution on March 30, 2012 stating that it no longer had confidence that the State could meet its funding obligations to TRS.[144] The resolution represented a change of position for TRS, which had previously maintained that the State would adhere to the law requiring 90% funding by FY2045.

Previous actions to reduce State pension obligations did not have a significant impact on funding requirements in the short term because they did not affect retirees or current employees. In April 2010, the State created a two-tier benefits system with less generous benefits for workers hired on or after January 1, 2011.[145] Tier 2 employees receive annual benefit increases of 3% or one-half of the annual increase in the Consumer Price Index (CPI), whichever is less. Current Illinois retirees and those hired before January 1, 2011 receive automatic annual increases of 3%. New workers' benefits grow more slowly over time because the annual increase is based on a simple rate, while the benefits of retirees and existing employees are increased based on a compounded rate.[146]

In December 2013 the State enacted a new pension law that lowers payments to retirees and employees mainly by reducing annual benefit increases.[147] The law also requires the State to pay off its unfunded pension obligations more quickly and completely than the existing funding plan. It is the State's first actuarially sound pension funding plan, designed to result in 100% funding over 30 years. The law affects four of the State's pension funds—TRS and the State Employees' Retirement System (SERS), State Universities Retirement System (SURS) and General Assembly Retirement System—but not the Judges' Retirement System.

According to a report by COGFA, the law would immediately reduce the unfunded liability by $21.1 billion and lower total State contributions by $137.4 billion over 30 years and by $1.2 billion in FY2016.[148] Annual total State contributions to TRS, SERS and SURS would peak in FY2036 at $9.3 billion, compared with maximum contributions of $16.1 billion in FY2045 under the old law.[149]

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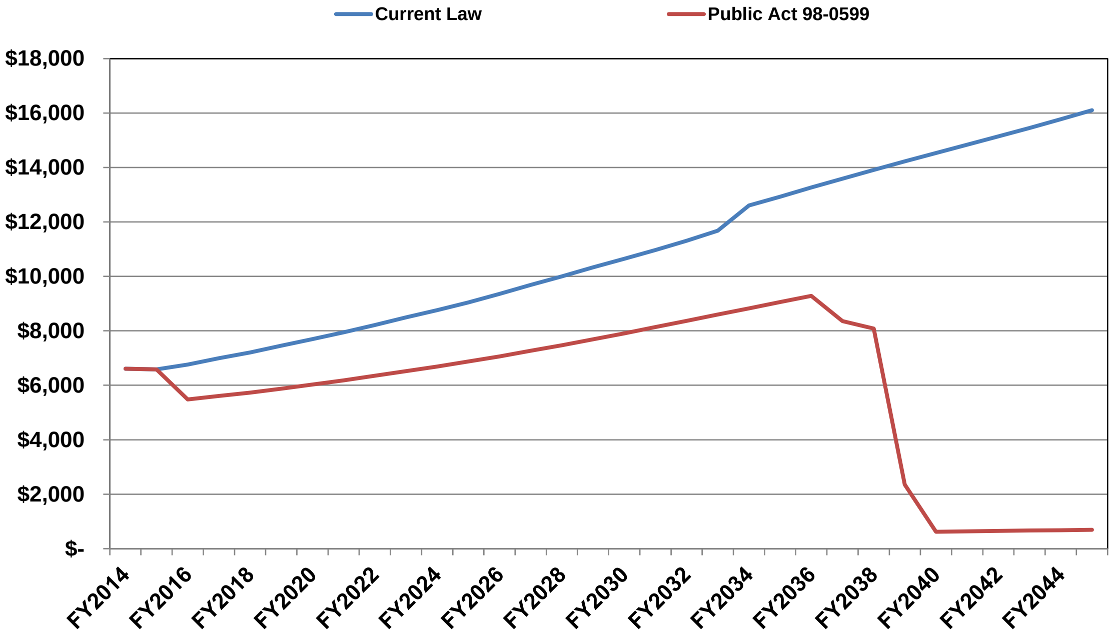
[143] 40 ILCS 5/16-158 (a-1).
[144] Teachers' Retirement System of the State of Illinois, *Board of Trustees Resolution*, March 30, 2012.
[145] Public Act 96-0889, signed on April 14, 2010. This legislation also applies to most non-public safety local government pension funds across the State.
[146] A simple rate increase applies the stated rate only to the initial benefit amount, while a compounded rate increase applies the stated rate to the initial benefit amount plus previously earned increases.
[147] Public Act 98-0599, signed 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 September 13, 2014).
[148] Commission on Government Forecasting and Accountability, *Segal Actuarial Cost Study of P.A. 98-0599 (SB1)*, March 26, 2014, p. 1.
[149] The COGFA report did not include the General Assembly Retirement System, the smallest State pension fund. State contributions to the General Assembly system are $15.8 million in FY2015.

The following chart, based on the COGFA analysis, compares projected total State contributions (General Funds and Other State Funds) under the 50-year funding plan and the new law for TRS, SERS and SURS. It is assumed that the new law takes effect in FY2016. While the systems are 90% funded in FY2045 under the current plan, they are completely funded before FY2040 under the new law. It should be noted that required contributions to TRS drop to zero beginning in FY2040 under the new law; annual contributions by Tier 2 employees currently exceed the value of their benefits.[150]

State of Illinois Projected Total Annual Pension Contributions under Current Law and Public Act 98-0599 (in $ millions)*



*Includes the three largest State pension funds: Teachers', Employees' and Universities Retirement Systems.
Source: Commission on Government Forecasting and Accountability, *Segal Actuarial Cost Study on P.A. 98-0599 (SB1)*, March 26, 2014, Exhibits 1-6. For data, see Appendix C.

The new law was scheduled to take effect on June 1, 2014, but implementation has been blocked by legal challenges. On May 14, a Sangamon County judge ordered that the law's implementation be delayed pending further action on the legal issues.[151]

Illinois is considered to have among the most stringent pension protections of any state.[152] It is one of a handful of states, including New York and Arizona, with specific constitutional provisions barring benefit reductions.[153] Opponents, including labor unions, employees and retirees, contend that the law violates the State's constitutional pension protections by reducing pension benefits.

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[150] Teachers' Retirement System of the State of Illinois, *June 30, 2013 Actuarial Valuation of Pension Benefits*, October 2013, p. 2.
[151] Bernard Schoenburg, "Judge blocks pension changes until ruling on lawsuit," *State Journal-Register*, May 14, 2014.
[152] Article XII, Section 5, of the Illinois Constitution states: "Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."
[153] Amy Monahan, "Public Pension Reform: The Legal Framework," *Minnesota Legal Studies Research No. 10-13*, March 17, 2010, pp. 7-10.

Supporters of the new law rely mainly on a legal argument relating to the State's police power to preserve public safety, order and welfare.[154] According to this argument, Illinois can impair contractual pension benefits if that action is reasonable and necessary to serve an important public purpose.[155]

A recent ruling by the Illinois Supreme Court in an unrelated case prompted speculation that the high court might eventually reject the new pension law.[156] The court held that State subsidies for retirees' health insurance premiums were benefits protected by the Constitution.[157] The July 3, 2014 ruling appeared to suggest that the Supreme Court might take an expansive view of the pension protection clause. After the high court decision, the Sangamon County judge overseeing the pension litigation said that the ruling would play a role in his decision, which could come before the end of 2014.[158]

Even before the legal impediments, State pension contributions for FY2015 were not scheduled to be affected by the new law. The five retirement systems certified required State contributions for FY2015 in January 2014 based on the previous funding plan, and the reform legislation did not provide for revised certifications.

In the next few weeks, the retirement systems will announce their preliminary estimates of the State's required FY2016 pension contributions. Regardless of which law is in effect, the contribution amounts will be higher than previously projected because the three biggest systems have lowered their assumed rates of return on investment. In the last six months, TRS reduced its rate from 8.0% to 7.5%, while SERS and SURS reduced their rates from 7.75% to 7.25%.

Taken alone, the reductions were expected to increase total State contributions in FY2016 by approximately $800 million.[159]

Medicaid

Illinois' Medicaid program is undergoing major changes, including eligibility expansion under the federal Affordable Care Act and a State-mandated movement to managed care. These changes add to the complexity of a program that involves several agencies, multiple funding sources and complicated funding arrangements.

Medicaid is a joint federal-state program that funds medical services for certain categories of low-income people, including children, pregnant women, parents, the elderly and the disabled. At the end of FY2013, enrollment in the Illinois Medicaid program stood at 2.8 million, or 21.8% of the State's population.[160]

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[154] Greg Hinz, "Pension reform up to Illinois Supreme Court," *Crain's Chicago Business*, December 11, 2013.
[155] Ronald A. Wirtz, "Public pension benefits and the law," *fedgazette*, January 1, 2011.
[156] Monique Garcia, and Hal Dardick, "Supreme Court ruling signals trouble for state, Chicago," *Chicago Tribune*, July 3, 2014.
[157] Illinois Supreme Court, *Kanerva v. Weems* (2014 IL 115811, July 3, 2014).
[158] Doug Finke, "Judge: Insurance ruling will factor into pension reform decision," *State Journal-Register*, September 4, 2014.
[159] Statement by the Governor's Office of Management and Budget at the June 27, 2014 meeting of the Budgeting for Results Commission.
[160] Illinois Department of Healthcare and Family Services, *Five Year Enrollment History*, http://www2.illinois.gov/hfs/agency/Program%20Enrollment/Pages/Statewide.aspx (last visited on September 25, 2014). This figure refers to recipients receiving comprehensive benefits. An additional 86,083 people received partial benefits as of the end of FY2013. The total Illinois population was 12.9 million.

Beginning in January 2014, the Affordable Care Act (ACA) gave states the option of providing Medicaid to the major population that generally had not been covered: non-elderly, non-disabled adults without dependent children. For states that chose to participate, the ACA extended Medicaid coverage to such adults with incomes up to 138% of the federal poverty level (meaning that a single person could have income up to $16,105 in 2014). The General Assembly approved Illinois' participation in the expansion at the end of the spring 2013 legislative session.[161]

State Medicaid expenditures are generally reimbursed by the federal government at a rate known as the Federal Medical Assistance Percentage (FMAP), which varies by state depending on per capita income. The federal matching rate for Illinois increased to 50.76% for the federal fiscal year that began on October 1, 2014 from 50.0% for the previous fiscal year.[162] However, the federal government is scheduled to pay 100% of the cost for the newly eligible ACA population for the first three years of the program, through calendar year 2016; 95% in 2017; 94% in 2018; 93% in 2019; and 90% thereafter.

Medicaid has no single programmatic appropriation in the State of Illinois budget. The Illinois Department of Healthcare and Family Services (HFS) administers the program and accounts for most of its spending, but a significant share of Medicaid expenditures are made by other agencies.[163] In the State budget, the best approximation to Medicaid is HFS' Medical Assistance Program, although roughly 10% of that program's appropriations are not part of Medicaid.

Appropriations in the State budget are gross amounts, meaning that they represent total authorized spending funded by both the State and federal governments. In General Funds, for example, a $1 appropriation for Medicaid after October 1, 2014 represents 49.24 cents in State-funded spending and 50.76 cents in federally funded spending. Federal reimbursements for State Medicaid spending are a major component of General Funds revenues.

In addition to General Funds, the Illinois Medicaid program receives funding from a number of Other State Funds sources. These include rebates paid by prescription drug manufacturers, cigarette taxes, proceeds from the settlement of tobacco-related litigation and financing arrangements structured to bring in federal matching funds for local governments and hospitals.

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[161] Public Act 98-0104, signed on July 22, 2013. Cook County's public health system got approval from the federal government in October 2012 to begin signing up newly eligible Cook County recipients in Medicaid before the official start of the expansion in January 2014. These Medicaid recipients are included in the State's enrollment numbers but not its liability figures because the County financing arrangement does not use State funds.

[162] U.S. Department of Health & Human Services, Office of the Assistant Secretary for Planning and Evaluation, *ASPE FMAP 2015 Report* and *ASPE FMAP 2014 Report*, http://aspe.hhs.gov/health/reports/2014/FMAP2015/fmap15.cfm and http://aspe.hhs.gov/health/reports/2014/FMAP2014/fmap2014.cfm (last visited on September 19, 2014). An enhanced FMAP of 65.53% applies to the Children's Health Insurance Program in federal fiscal year 2015 and costs for newly eligible Medicaid recipients under the Affordable Care Act are currently reimbursed at 100%.

[163] Illinois Department of Healthcare and Family Services, *Medical Assistance Program Annual Report: Fiscal Years 2009, 2010 and 2011*, March 30, 2012, p. 18. Other agencies include the Departments of Human Services, Public Health and Children and Family Services and the Department on Aging.

Total appropriations for the Medical Assistance Program increase by $354.1 million, or 1.8%, to $19.9 billion in FY2015 from $19.6 billion in FY2014. General Funds appropriations decline by $344.9 million, or 4.6%, to $7.2 billion, while Other State Funds appropriations increase by $699.0 million, or 5.8%, to $12.7 billion.

HFS Medical Assistance Program Expenditures and Appropriations: FY2011-FY2015 (in $ millions)						
	FY2011 Exp.	FY2012 Exp.	FY2013 Exp.	FY2014 Revised Approp.*	FY2014 Est. Exp.	FY2015 Enacted Approp.
General Funds	$ 6,313.2	$ 6,627.4	$ 6,576.0	$ 7,565.8	$ 7,219.0	$ 7,220.9
Other State Funds	$ 6,964.3	$ 5,772.7	$ 8,492.1	$ 12,024.9	$ 9,886.4	$ 12,723.9
Total	**$ 13,277.5**	**$ 12,400.1**	**$ 15,068.1**	**$ 19,590.7**	**$ 17,105.4**	**$ 19,944.8**

*As of June 2014.

Source: Communication between Civic Federation and Illinois Department of Healthcare and Family Services, September 5, 2014; Communication between Civic Federation and Governor's Office of Management and Budget, September 18, 2014 and September 25, 2014.

Comparisons with FY2014 are misleading because General Funds appropriations in FY2014 were inflated by a supplemental appropriation of $600 million to be deposited into the Healthcare Provider Relief Fund and used in FY2015.[164] In the Governor's recommended FY2015 budget, this amount would have been funded by a transfer out of General Funds in FY2015.[165] Estimated FY2014 expenditures of $7.2 billion are $368 million below the revised appropriation amount due to the funding of Medicare premiums owed by the State to the federal government.[166] Instead of receiving direct payment for the premiums, the federal government reduced the State's Medicaid reimbursements.

Major Medicaid legislation approved during the spring 2014 legislative session was estimated to have an FY2015 General Funds cost of $216.9 million, including $164.4 million in rate increases and other payments to healthcare providers.[167] The legislation, along with other parts of the FY2015 budget, authorized funding to shield nursing homes and hospitals from any adverse financial consequences of new rate-setting methodologies to be implemented in FY2015. Hospitals will receive a total of $290 million through FY2017 to offset any financial losses from the new rate system.[168]

The legislation also included enhanced medical benefits for Medicaid recipients, mainly involving a restoration of certain benefits eliminated in 2012 under the Save Medicaid Access and Resources Together (SMART) Act.[169] That law was part of a plan designed to close a $2.7 billion gap in Medicaid funding by cutting costs and increasing revenues. The total FY2015 General Funds cost for enhanced benefits was estimated at $52.5 billion, with $35 million of that amount—for the restoration of adult dental benefits—already included in the Governor's FY2015 budget proposal. The 2014

[164] Public Act 98-0642, signed on June 9, 2014, p. 2.
[165] Illinois State FY2015 Budget, p. 2-69.
[166] Communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 19, 2014. Medicaid covers Medicare premiums for recipients who are eligible for both programs.
[167] Public Act 98-0651, signed on June 16, 2014. The law also authorized a nursing home rate increase for pediatric ventilator patients that was expected to add $4.6 million to the FY2015 General Funds budget of the Department of Human Services. For more information on the law, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, http://www.civicfed.org/iifs/blog/illinois-medicaid-legislation-increases-payments-nursing-homes-hospitals.
[168] Illinois Department of Healthcare and Family Services, *Omnibus Medicaid Bill: Senate Bill 741, as Amended by House Amendment #1*, http://www2.illinois.gov/hfs/SiteCollectionDocuments/FY2015SB741.pdf (last visited on September 24, 2014).
[169] Public Act 97-0689, signed on June 14, 2012.

legislation also added a new benefit: kidney transplants for low-income undocumented residents already receiving emergency dialysis services.[170]

Other significant provisions of the new law did not affect the FY2015 general operating budget. The legislation extended through FY2017 two hospital assessment programs that were due to expire at the end of calendar year 2014. The law also provided that HFS would seek federal approval to receive roughly $400 million more in federal matching funds from the assessment programs based on the current 100% matching rate for newly eligible recipients under the ACA.

The legislation added $615 million to Other State Funds appropriations for the Medical Assistance Program in FY2015. Of that amount, $600 million was appropriated for managed care plans but is designed to be paid back to hospitals to ensure that they do not lose supplemental Medicaid payments because of the State's increasing use of managed care.[171]

It should be noted that appropriations from Other State Funds are typically in excess of actual expenditures. Budget officials typically seek additional spending authority from Other State Funds; this avoids the need to request supplemental appropriations from the General Assembly in case additional resources become available during the year. Appropriations from Other State Funds do not affect the operating deficit and are less politically sensitive than General Funds appropriations.

An analysis of trends in HFS' annual budget is further complicated by the State's traditional practice of deferring Medicaid costs and paying them out of future appropriations. In general, Section 25 of the State Finance Act requires that bills incurred in a given year be paid out of that year's appropriation.[172] However, an exception has allowed the State to pay Medicaid bills out of future years' appropriations. Relying on this provision, the State has appropriated inadequate amounts for Medicaid in order to help balance the budget. In the meantime, Medicaid bills have accumulated outside the budget.

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

Legislation enacted in 2012 significantly curtailed the State's ability to defer HFS Medicaid bills beginning at the end of FY2013.[173] The new law limited these deferred liabilities to $700 million in FY2013 and $100 million thereafter, with certain exceptions.[174]

Annual liability—rather than spending—provides the best measure of the Medicaid program's annual cost trends. The next chart shows Medical Assistance liability from FY2007 through FY2015, not including special funding arrangements such as hospital assessments. The chart shows total liability, including costs covered by the federal government. Annual liability is expected to rise to $12.9 billion

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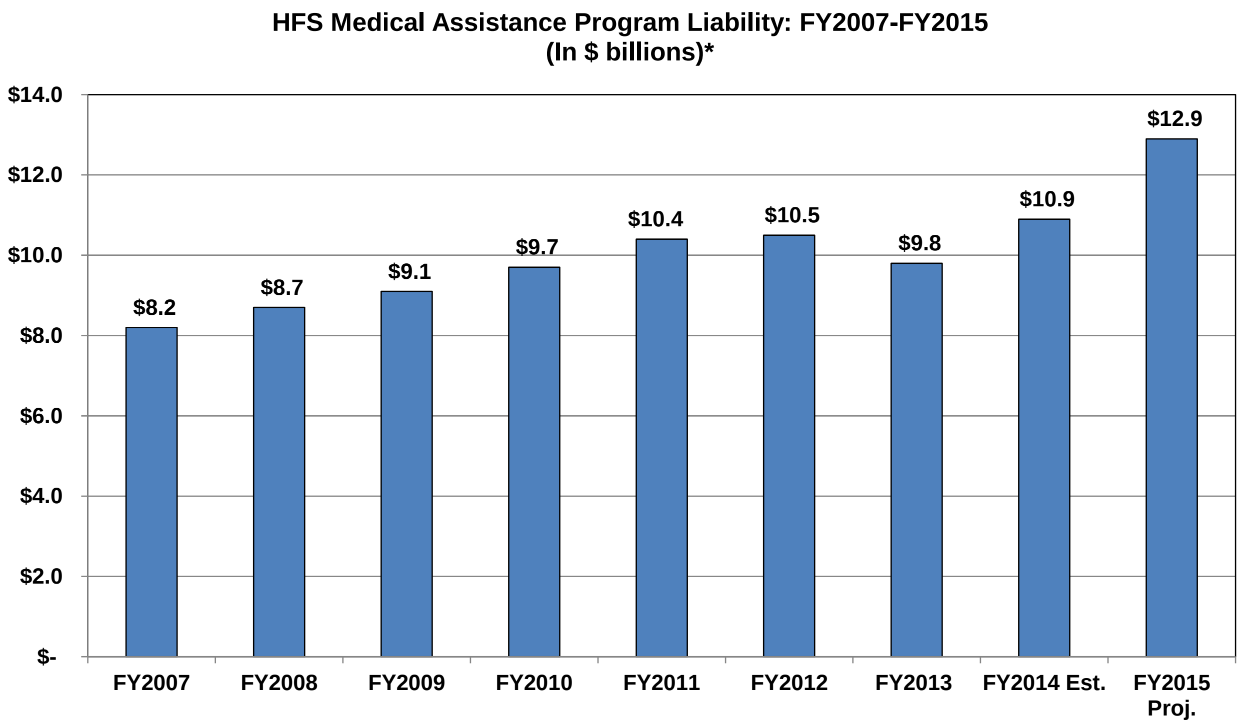
[170] For more information on the new kidney transplant benefit, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation's blog, http://www.civicfed.org/iifs/blog/illinois-fund-kidney-transplants-undocumented-residents.
[171] Public Act 98-0651, signed on June 16, 2014. The remaining $15 million is related to a proposed new assessment on supportive living facilities that must be approved by the federal government.
[172] 30 ILCS 105/25.
[173] Public Act 97-0691, signed on June 12, 2012.
[174] The main exception relates to medical services performed before the end of the fiscal year for which the State has not yet been billed. These are known as Incurred But Not Reported (IBNR) claims.

in FY2015. That represents an increase of $2.0 billion, or 18.3%, from $10.9 billion in FY2014 and $4.7 billion, or 57.3%, from $8.2 billion in FY2007.



*Liability includes General Funds and related funds only.
Source: Illinois Department of Healthcare and Family Services, *Fiscal Year 2015 Budget Overview*, March 26, 2014, p. 18; Communication between Civic Federation and Ilinois Department of Healthcare and Family Services, September 5, 2014.

Base costs, not including the impact of the ACA expansion or program changes, increase by only 1.7%, or about $185.7 million, in FY2015, according to HFS.[175] ACA-related costs in FY2015 are projected at $2.15 billion, an increase of $1.55 billion from $604.1 million in FY2014.[176] The total ACA-related cost in FY2015 includes $1.76 billion for newly eligible recipients, whose costs are entirely reimbursed by the federal government. It also includes $392.9 million for those who were previously eligible but had not enrolled in the program; costs for these recipients are reimbursed at the regular rate (now 50.76%).

Before the expansion began, HFS had projected that 241,500 new recipients would sign up by the end of FY2014, including 161,000 newly eligible individuals and 80,500 people who were previously eligible but not enrolled. By the end of calendar year 2017, HFS had projected a total of 509,000 ACA-related enrollees: 342,000 newly eligible individuals and 167,000 previously eligible but not enrolled recipients.

The proposed budget, issued in March 2014, was based on an estimate of 430,000 ACA enrollees by the end of FY2014 (350,000 newly eligible recipients and 80,000 previously eligible individuals) and

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[175] Communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 29, 2014.
[176] Communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 29, 2014.

470,000 by the end of FY2015 (385,000 newly eligible and 85,000 previously eligible). The enacted budget is based on these numbers.

The latest figures on HFS' website show 451,880 newly eligible recipients as of August 2014—nearly 110,000 or almost one-third more than had been projected by the end of 2017.[177] The agency has not yet revised its estimate of initial total enrollment for 2017.

A new enrollment estimate for previously eligible recipients has not been made available. Meanwhile, HFS is proceeding with the Medicaid Redetermination Project, an effort to remove ineligible recipients from the program's rolls by cross-checking electronic data on recipients' income, employment and address.[178] It is unclear whether the results of that project, combined with an improving economy, might offset any enrollment increases due to previously eligible ACA participants.

Over the long term, HFS' strategy to hold down Medicaid costs depends on moving recipients to managed care, which is also called coordinated care. A State law enacted in 2011 requires that half of Medicaid recipients be enrolled in coordinated care by January 1, 2015.[179]

Illinois has historically lagged behind other states in the use of managed care for Medicaid enrollees. Only 213,417 Medicaid recipients in Illinois, or 7.7% of the total, were enrolled in comprehensive managed care in 2011, compared with a nationwide average of about 51%.[180]

States are increasingly turning to managed care in an effort to control Medicaid costs and improve patient care. Doctors and hospitals have traditionally been paid on a fee-for-service basis, in which payment depends on the volume of services provided. In contrast, managed care is designed to reward healthcare organizations for keeping patients healthy and avoiding unnecessary tests and procedures. Health maintenance organizations (HMOs), for example, receive a fixed monthly fee, known as a capitation rate, for each Medicaid enrollee.

The State's first experiment with mandatory HMO-style managed care for Medicaid began in May 2011 with a pilot program for elderly and disabled recipients in Northeastern Illinois, excluding Chicago, who were not also eligible for Medicare. Seniors and people with disabilities represent 17% of the Medicaid population but incur 57% of Medicaid costs because of their complex health needs.[181]

HFS plans to enroll at least 60% of recipients in managed care by early 2015.[182] The plan involves five mandatory managed care regions—Rockford, Central Illinois, Metro East, Quad Cities and Cook and Collar Counties (including Chicago)—and five different kinds of managed care organizations, including HMOs and new networks organized by healthcare providers. Cook County's public health

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[177] Illinois Department of Healthcare and Family Services, *Affordable Care Act Enrollment by Age, Race and Gender as of August 2014*, http://www2.illinois.gov/hfs/SiteCollectionDocuments/ACAEnrollmentSummaryData.pdf (last visited on September 25, 2014).
[178] Illinois Department of Healthcare and Family Services, *Medicaid Redetermination Project*, http://www2.illinois.gov/hfs/MedicalCustomers/eev/Pages/default.aspx (last visited on September 25, 2014).
[179] Public Act 96-1501, signed on January 25, 2011.
[180] Kaiser Family Foundation, *Medicaid Enrollment in Comprehensive Risk-Based Managed Care*, http://kff.org/medicaid/state-indicator/medicaid-enrollment-in-comprehensive-risk-based-managed-care/#table (last visited on September 25, 2014); Centers for Medicare and Medicaid Services, *2011 Medicaid Managed Care Enrollment Report: Summary Statistics as of July 1, 2011*, pp. 1-5.
[181] Illinois Department of Healthcare and Family Services, *Fiscal Year 2015 Budget Overview*, March 26, 2014, p. 8.
[182] Illinois Department of Healthcare and Family Services, *Care Coordination Roll-Out Fact Sheet*, August 26, 2014, p. 1, http://www2.illinois.gov/hfs/SiteCollectionDocuments/CCRollOutFactSheet.pdf (last visited on September 25, 2014)..

system began enrolling newly eligible ACA recipients in February 2013 under an agreement with the federal government and currently has more than 100,000 members in its CountyCare managed care plan.[183]

The move to managed care involves a shift in the allocation of HFS' budget. Hospital costs have traditionally represented the largest single component of the agency's liability but are expected to be surpassed by managed care costs in FY2015.[184] In FY2014 hospital costs accounted for 30.5% of the total liability, compared to 11.8% for managed care; in FY2015 the shares are expected to be 19.6% and 41.5%, respectively. Hospitals and other medical providers will receive more of their Medicaid payments from managed care organizations instead of directly from the State.

State Group Health Insurance

General Funds appropriations for the State Employees' Group Insurance Program increase by $119.0 million, or 8.2%, to $1.565 billion in FY2015 from $1.446 billion in FY2014.[185] The enacted appropriation is $90 million higher than the recommended amount in the Governor's budget proposal.[186]

The State group insurance program provides health insurance coverage to employees, retirees, and dependents of the State government, the General Assembly, the judiciary and State universities.[187] The program is expected to have 360,277 participants in FY2015, down slightly from 361,809 in FY2014.[188]

In FY2015 the total cost of the State group insurance program is estimated at $2.649 billion, an increase of $24.3 million, or less than 1%, from $2.624 billion in FY2014.[189] In addition to General Funds and member contributions, resources for the program come from the State's Road Fund, other State funds and State universities.

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[183] Cook County Health and Hospitals System, *CountyCare Update Prepared for: CCHHS Board Finance Committee*, September 19, 2014, p. 6.

[184] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 88. These figures are based on General Fund and related funds liability.

[185] Public Act 98-0680, signed on June 30, 2014, p.126; Public Act 98-0642, signed on June 9, p. 2.

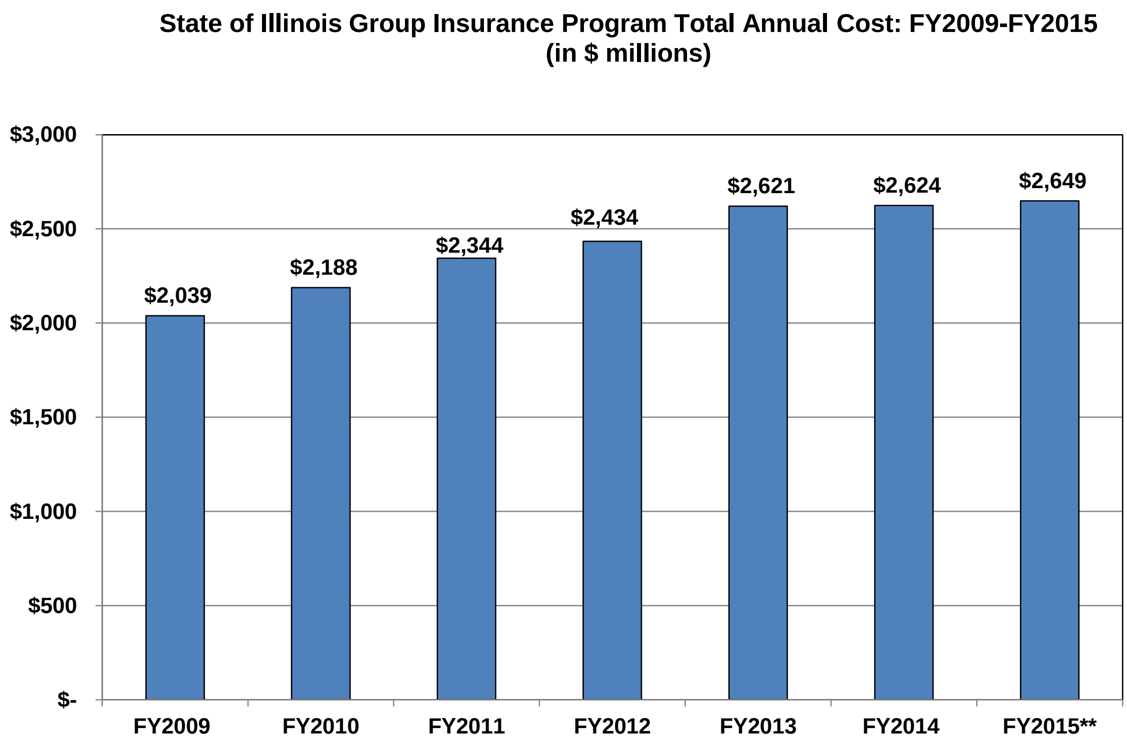
[186] Illinois State FY2015 Budget, p. 2-35.

[187] The program also provide life insurance at a relatively small cost to the State.

[188] Commission on Government Forecasting and Accountability, *FY2015 Liabilities of the State Employees' Group Health Insurance Program*, March 2014, p.12.

[189] Commission on Government Forecasting and Accountability, *FY2015 Liabilities of the State Employees' Group Health Insurance Program*, March 2014, p. 10.These totals include life insurance costs of $88 million in FY2015 and $86 million in FY2014.

The following chart shows the total annual cost of the program from FY2009 through FY2015. The total cost includes the State's cost as well as costs paid by members and from other sources.



*Total cost includes cost paid by State, participants and other sources.
**Projected.
Source: Commission on Government Forecasting and Accountability, *Liabilities of the State Employees' Group Health Insurance Program*, March 2014, p. 10.

The State offers both a traditional health insurance plan, which allows participants to choose any doctor or hospital, and managed care plans such as Health Maintenance Organizations, which generally restrict choices.[190] In FY2015 membership in the more expensive traditional plan is expected to decline to 59,727, or 16.6% of total enrollment, from 88,647, or 24.5%, in FY2014 and 114,850, or 31.8%, in FY2013.[191]

The shift in enrollment reflects the State's effort to reduce health insurance costs by moving Medicare-eligible retirees into Medicare Advantage plans beginning in February 2014. Medicare Advantage plans are offered by private companies that contract with the federal government to provide Medicare benefits. In addition to Medicare benefits, Medicare Advantage plans provide State retirees with supplemental benefits similar to those offered by the State group insurance plan.

[190] Although participants in the traditional plan may choose any medical services provider, they receive enhanced benefits for using doctors and hospitals that are members of a network. For more information on the State's group insurance program, see the Civic Federation, *State of Illinois Employee Health Insurance Plans: Analysis and Recommendations for Cost Containment*, April 16, 2007, http://www.civicfed.org/civic-federation/publications/state-illinois-employee-health-insurance-plans-analysis-and-recommenda.
[191] Commission on Government Forecasting and Accountability, *FY2015 Liabilities of the State Employees' Group Health Insurance Program*, March 2014, p. 12; Commission on Government Forecasting and Accountability, *FY2014 Liabilities of the State Employees' Group Health Insurance Program*, May 2013, p. 10. Total enrollment in FY2013 was 361,471.

The State's main labor union, the American Federation of State, County and Municipal Employees (AFSCME), agreed to the use of Medicare Advantage plans during negotiations on a new three-year contract that ends in FY2015. In exchange for wage increases, AFSCME agreed to increased health insurance costs and other changes for both employees and retirees. The State initially forecasted health insurance savings of $903 million from the contract, which were partially offset by $222 million in wage increases.[192]

The labor agreement implemented a law enacted in 2012 that eliminated premium-free health insurance coverage for retirees.[193] Before the 2012 changes, the State paid the entire bill for health insurance premiums for those who retired prior to 1998. For those who retired beginning in 1998, the State contributed 5% of the premium cost for each full year of service, up to a maximum of 100% for retirees with 20 or more years of service. General Assembly members and constitutional officers could retire with as few as four years of service and not pay any premiums, and judges could retire with as few as six years of service and not pay premiums. Approximately 91% of the more than 81,900 retirees covered by the State's group insurance program did not pay any health insurance premiums as of January 2011.[194]

The 2012 legislation that eliminated premium-free health coverage for retirees did not specify how retiree health insurance premiums would be determined, leaving that decision to the State's Department of Central Management Services (CMS). As part of the collective bargaining agreement with AFSCME that was signed in May 2013, retirees covered by Medicare were required to pay 1% of their pension benefit amount for health insurance and those not covered by Medicare were required to pay 2%. Those amounts doubled to 2% and 4% in FY2015.[195]

However, the Illinois Supreme Court rejected these changes in a ruling on July 3, 2014.[196] The high court held that State subsidies for retiree health insurance premiums are a pension benefit covered by the pension protection clause of the Illinois Constitution. The case was sent back to Sangamon County Court, which had previously dismissed it on the grounds that healthcare benefits were not covered by the pension provision. The judge in that case recently directed the State to stop deducting premium contributions from retirees' pension checks.[197]

According to CMS, State retirees paid approximately $43 million in additional premiums under the new law in FY2014 and were projected to pay $91 million more in FY2015.[198] The State is expected to lose those additional revenues in FY2015; it is not clear when premiums paid by retirees in FY2014 might be returned.

The following table shows average annual net State costs per retiree from FY2009 through FY2015. Retiree contributions in FY2014 and FY2015 include the additional premiums due to the 2012 law and

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192 Illinois Department of Central Management Services, *AFSCME 2012-2015 Contract Summary*, Submission to Commission on Government Forecasting and Accountability, April 16, 2013.
193 Public Act 97-0695, signed on June 21, 2012.
194 Commission on Government Forecasting and Accountability, *Request for Proposals to Provide Consulting Services*, February 17, 2011, p. 2.
195 Illinois Department of Central Management Services, AFSCME Master Contract, Appendix B, http://www2.illinois.gov/cms/Employees/Personnel/Documents/emp_afscme_chg_appendixB.pdf (last visited on September 14, 2014).
196 Illinois Supreme Court, *Kanerva v. Weems* (2014 IL 115811, July 3, 2014).
197 Doug Finke, "Court rules state retirees can stop paying health insurance premiums," *State Journal-Register*, August 28, 2014.
198 Communication between the Civic Federation and the Illinois Department of Central Management Services, August 5, 2014 and September 18, 2014.

do not reflect the recent court ruling. Due to the law, retiree contributions increased from 1.3% of total costs in FY2009 to an estimated 19.4% in FY2015.

Net State of Illinois Costs for Retiree Health Insurance: FY2009-FY2015 (in $ millions and $ per retiree)							
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 Est.*	FY2015 Est.*
Total Retiree Costs	$ 531.9	$ 566.9	$ 609.6	$ 647.2	$ 710.0	$ 682.1	$ 606.1
Retiree Contributions*	$ 6.9	$ 17.4	$ 22.3	$ 23.0	$ 26.7	$ 70.0	$ 117.4
Other Revenues	$ 40.7	$ 40.9	$ 39.8	$ 43.6	$ 42.8	$ 41.5	$ 8.8
Net State Retiree Costs	**$ 484.3**	**$ 508.7**	**$ 547.5**	**$ 580.6**	**$ 640.5**	**$ 570.6**	**$ 479.9**
Number of Retirees	78,154	79,740	81,895	84,624	88,826	88,300	88,549
Net Average Annual State Costs Per Retiree	**$ 6,197**	**$ 6,379**	**$ 6,686**	**$ 6,861**	**$ 7,211**	**$ 6,462**	**$ 5,420**

*Includes increased retiree contributions for FY2014 and FY2015.

Source: Communication betw een Civic Federation and Illinois Department of Central Management Services, September 29, 2014.

The table shows average annual net State costs for retirees, but actual costs vary widely. Actual net State costs depend on which plan a participant is enrolled in and whether a retiree is covered by Medicare.

Despite the adverse ruling on retiree premiums, the State still expects significant savings on other health insurance-related changes for both retirees and employees under the current labor contract. Without additional retiree premiums, savings are now estimated at approximately $730 million, including $108 million in changes that are still being negotiated with AFSCME.[199] At least $225 million of the savings is expected to come from the move to Medicare Advantage plans. In FY2015 State savings on health insurance under the contract are estimated at $344.6 million, including $150 million due to Medicare Advantage.

The next table shows net State costs for health insurance by category of participant from FY2009 to FY2015. As in the previous table, net State costs for retiree health insurance do not reflect the ruling and are instead based on increased retiree premiums under the 2012 law. Total net State costs decline by $114.9 million from $2.2 billion in FY2013 to $2.1 billion in FY2013.

[199] Communication between the Civic Federation and the Illinois Department of Central Management Services, April 25, 2014 and September 18, 2014.

Net State of Illinois Costs for Retiree and Employee Health Insurance: FY2009-FY2015 (in $ millions)							
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 Est.*	FY2015 Est.*
Retirees	$ 484.3	$ 508.7	$ 547.5	$ 580.6	$ 640.5	$ 570.6	$ 479.9
Retiree Dependents	$ 110.3	$ 125.0	$ 140.7	$ 157.6	$ 186.4	$ 179.1	$ 169.7
Total Retirees	**$ 594.5**	**$ 633.7**	**$ 688.2**	**$ 738.1**	**$ 826.9**	**$ 749.6**	**$ 649.6**
Employees	$ 731.8	$ 767.3	$ 809.0	$ 843.4	$ 869.3	$ 838.7	$ 887.2
Employee Dependents	$ 405.4	$ 448.0	$ 491.1	$ 519.6	$ 550.1	$ 560.7	$ 594.5
Total Employees	**$ 1,137.2**	**$ 1,215.3**	**$ 1,300.1**	**$ 1,363.0**	**$ 1,419.4**	**$ 1,399.3**	**$ 1,481.7**
Total	**$ 1,731.7**	**$ 1,849.0**	**$ 1,988.3**	**$ 2,101.2**	**$ 2,246.3**	**$ 2,148.9**	**$ 2,131.4**

*Estimated. Includes increased retiree contributions for FY2014 and FY2015.

Source: Communication between Civic Federation and Illinois Department of Central Management Services, September 29, 2014.

The next table shows group insurance expenditures for FY2009 through FY2013, estimated expenditures for FY2014 and enacted appropriations for FY2015. The Other State Funds number is adjusted to avoid double counting of total appropriations.

State of Illinois Group Insurance Expenditures and Appropriations: FY2009-FY2015 (in $ millions)*							
	FY2009 Exp.	FY2010 Exp.	FY2011 Exp.	FY2012 Exp.	FY2013 Exp.	FY2014 Est. Exp.	FY2015 Enacted Approp.
General Funds	$ 1,058	$ 1,146	$ 885	$ 1,436	$ 1,450	$ 1,446	$ 1,565
Other State Funds**	$ 703	$ 833	$ 1,084	$ 1,001	$ 809	$ 1,583	$ 1,593
Total	**$ 1,761**	**$ 1,979**	**$ 1,969**	**$ 2,437**	**$ 2,259**	**$ 3,029**	**$ 3,158**

*Includes health insurance and life insurance.

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

Source: Illinois State FY2015, pp. 2-35 and 6-77; Public Act 98-0680, p. 126; Public Act 98-0642, p. 2; llinois State FY2014 Budget, p. 2-29 and p. 6-71; Illinois State FY2013 Budget, p. 2-31 and p. 5-67; Illinois State FY2012 Budget, p. 2-26 and p. 11-72; Illinois State FY2011 Budget, p. 2-20 and p. 6-21.

In practice, CMS receives appropriations from General Funds and the Road Fund and deposits those revenues into the Health Insurance Reserve Fund along with members' contributions and other resources. Health insurance claims are paid out of the Health Insurance Reserve Fund.[200] Appropriations from the health insurance fund may be in excess of actual spending if adequate resources are not available.

Annual expenditures do not necessarily track annual costs because group health insurance bills can be paid out of future year appropriations under an exception to Section 25 of the State Finance Act.[201] The State began appropriating inadequate amounts for group health insurance in FY2009, in response to federal restrictions on the deferral of Medicaid bills.[202] The result was a sharp increase in the

[200] Life insurance premiums are paid out of the Group Insurance Premium Fund.
[201] 30 ILCS 105/25 (b-4).
[202] Illinois State Comptroller, "The State Fiscal Crisis—How Did We Get Here?" *Fiscal Focus*, September 2011, p. 7. The American Recovery and Reinvestment Act of 2009 required that many Medicaid healthcare providers be paid within 30 days.

backlog of unpaid health insurance claims. The deferral of Medicaid bills was curtailed by a law enacted in 2012, but the restriction does not apply to health insurance claims.[203]

The backlog of unpaid group health insurance claims is expected to stand at approximately $1.4 billion at the end of FY2014.[204] The FY2015 General Funds appropriation of $1.565 billion was expected to allow a reduction of about $90 million in the claims backlog. However, it now appears likely that the funds will be used to make up for the decrease in retiree premium contributions required by the Illinois Supreme Court's ruling in July.

As a result of insufficient funds, healthcare providers for State employees were waiting as long as 420 days to be paid in July 2014, according to COGFA, and payment delays are expected to remain the same in FY2015.[205] Because of the payment delays, the State was expected to pay interest penalties of approximately $91 million to healthcare providers and managed care organizations in FY2015.[206]

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

The State is required by law to contribute specific annual amounts to TRIP and CIP, as certified by the Teachers' Retirement System and the State Universities Retirement System.[207] Those amounts are $101.0 million and $4.5 million, respectively, in FY2015.[208]

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[203] Public Act 97-0691, signed on June 14, 2012.
[204] Communication between the Civic Federation and the Illinois Department of Central Management Services, September 18, 2014. This figure is after lapse period spending, which is based on current fiscal year appropriations but can occur as much as six months after the end of the fiscal year.
[205] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1, 2014, p. 78.
[206] Communication between the Civic Federation and the Illinois Department of Central Management Services, April 25, 2014.
[207] 5 ILCS 375/6.6(c) and 5 ILCS 375 6.10(c).
[208] Public Act 98-0680, signed on June 30, 2014, pp. 122-124.

Personnel

The Governor's FY2015 recommended budget proposed an increase of 1,405 full-time equivalent positions (FTEs) at agencies under his control from the estimated level at the end of FY2014.[209] Based on a more recent estimate of FTEs at the end of FY2014, the number of positions would have increased by 1,543, or 2.9%, under the Governor's FY2015 budget proposal to 55,295 from 53,752.

State of Illinois Full-Time Equivalent Positions at Governor's Agencies FY2011-FY2015									
Agency Group	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Rec.	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Human Services	21,682	20,165	18,915	21,692	22,259	567	2.6%	577	2.7%
Healthcare	2,241	2,083	2,103	2,466	2,528	62	2.5%	287	12.8%
Public Safety	17,329	16,209	16,010	16,887	17,379	492	2.9%	50	0.3%
Government Services	3,799	3,545	3,770	4,089	4,120	31	0.8%	321	8.4%
Environment and Culture	1,425	1,295	1,298	1,550	1,657	107	6.9%	232	16.3%
Economic Development	6,429	6,285	6,255	6,216	6,496	280	4.5%	67	1.0%
Education*	810	788	727	852	856	4	0.5%	46	5.7%
Total	**53,715**	**50,370**	**49,078**	**53,752**	**55,295**	**1,543**	**2.9%**	**1,580**	**2.9%**

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

Source: Communication between Civic Federation and Governor's Office of Management and Budget, September 30, 2014.

The proposed increase included 567 positions at human services agencies to handle growth in Medicaid enrollment under the Affordable Care Act, improve child support enforcement, conduct nursing home inspections and add hours of nursing care at veterans' homes. The increase also included 492 positions in public safety agencies for highway safety and maintenance staff, staff to implement a new law authorizing individuals to carry concealed firearms and security officers. [210]

Agencies continued to fill critical positions left vacant because of an unprecedented number of retirements in FY2012 and FY2013, according to the Governor's Office.[211] At the end of FY2013, the Governor's Office had targeted an FTE number of 51,563, but the actual number of positions filled was 2,485 FTEs, or 4.8%, lower at 49,078.[212]

Without supplemental appropriations, however, the proposed FTE increases in FY2015 are unlikely to be implemented due to reductions in the enacted budget. General Funds appropriations for salaries and wages in the enacted FY2015 budget are $3.16 billion, a decrease of $227.0 million, or 6.7%, from $3.39 billion in the Governor's recommended budget.[213] Total personal services appropriations from all funds in the enacted budget are $4.38 billion, a reduction of $206.7 million, or 4.5%, from $4.58 billion in the Governor's proposal. In FY2014 appropriations for wages and salaries are estimated at $3.17 billion from General Funds and $4.33 billion from all funds. Unlike FTE figures in the chart above, which only include agencies under the Governor, appropriation amounts include all agencies with line-item appropriations for personal services.

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[209] Illinois State FY2015 Budget, p. 2-24.
[210] Public Act 98-0063, signed on July 9, 2013.
[211] Illinois State FY2015 Budget, p. 2-24.
[212] Illinois State FY2013 Budget, p. 2-20.
[213] Civic Federation calculation based on Governor's Office of Management and Budget, *Fiscal Year 2015 Enacted Total Budget by Line Item*, http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202015%20Budget%20Book/Enacted_FY15_Budget_by_Line_Item.xls (last visited on October 1, 2014) and *Fiscal Year 2015 Operating Budget Detail*, http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202015%20Budget%20Book/FY2015BudgetByLineItemData.xls (last visited on October 1, 2014).

Approximately 90% of State employees are covered by collective bargaining agreements.[214] Expense increases in FY2015 include wage increases negotiated under contracts with the American Federation of State, County and Municipal Employees (AFSCME), the State's largest union, and other labor organizations. The current three-year AFSCME contract, which began in FY2013, requires cost-of-living adjustments and other increases totaling $62 million in FY2015.[215]

The Department of Human Services has the largest staff of any State agency, with an estimated 13,405 positions at the end of FY2014.[216] At a hearing before the House Human Services Appropriations Committee in February 2014, officials of the agency said that cost increases related to collective bargaining agreements totaled $92.2 million in FY2015.[217]

General Funds Expenditures

Expenditures from General Funds consist of net appropriations spent (after deducting unspent appropriations) and statutory transfers out. General Funds are transferred out to Other State Funds to make debt service payments on previously issued bonds and for a wide range of other purposes specified by law or determined annually by the General Assembly.

The next table shows General Funds expenditures from FY2011 to FY2015. Total General Funds expenditures in FY2015 are estimated at $35.8 billion, including total appropriations spent of $31.2 billion and total transfers out of $4.6 billion. The agency appropriations figure for FY2014 differs slightly from previous tables because it includes approximately $32 million of continuing appropriations for the Teachers' Retirement Insurance Program and the College Insurance Program that were not directly appropriated by the General Assembly.[218]

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[214] State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 10.
[215] Illinois Department of Central Management Services, *AFSCME 2012-2015 Contract Summary*, Submission to Commission on Government Forecasting and Accountability, April 16, 2013.
[216] Illinois State FY2015 Budget, p. 6-124.
[217] This figure includes payroll taxes paid by the State for workers represented by the Service Employees International Union (SEIU) in the Home Services Program.
[218] A continuing appropriation is statutory authority that allows funds to be spent if the General Assembly fails to appropriate necessary funds for a specified purpose. The statutory authority for continuing appropriations for TRIP and CIP can be found at 40 ILCS 15/1.3 and 40 ILCS 15/1.4.

State of Illinois General Funds Expenditures: FY2011-FY2015 (in $ millions)							
	FY2011	FY2014 Revised[1]	FY2015 Enacted	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Agency Appropriations[2]	$ 24,960	$ 24,711	$ 23,881	$ (830)	-3.4%	$ (1,079)	-4.3%
Less Unspent Appropriations	$ (350)	$ (533)	$ (334)	$ 199	-37.3%	$ 16	-4.6%
Net Agency Appropriations Spent	$ 24,610	$ 24,178	$ 23,547	$ (631)	-2.6%	$ (1,063)	-4.3%
Pension Contributions[3]	$ 3,680	$ 5,989	$ 6,046	$ 57	1.0%	$ 2,366	64.3%
Group Insurance	$ 885	$ 1,446	$ 1,565	$ 119	8.2%	$ 680	76.8%
Total Appropriations Spent	**$ 29,175**	**$ 31,613**	**$ 31,158**	**$ (455)**	**-1.4%**	**$ 1,983**	**6.8%**
Legislatively Required Transfers	$ 2,399	$ 2,933	$ 2,377	$ (556)	-19.0%	$ (22)	-0.9%
Debt Service on Pension Bonds	$ 1,667	$ 1,656	$ 1,503	$ (153)	-9.2%	$ (164)	-9.8%
Other Debt Service[4]	$ 761	$ 625	$ 717	$ 92	14.7%	$ (44)	-5.8%
Total Tranfers Out	**$ 4,827**	**$ 5,214**	**$ 4,597**	$ (617)	-11.8%	$ (230)	-4.8%
Total[5]	**$ 34,002**	**$ 36,827**	**$ 35,756**	**$ (1,071)**	**-2.9%**	**$ 1,754**	**5.2%**

[1]As of June 2014.

[2]Agency appropriations for FY2014 include $32 million of continuing appropriations for Teachers' Retirement Insurance Program and College Insurance Program.

[3]Pension contributions in FY2011 were made through issuance of General Obligation bonds and are shown for the purpose of comparability.

[4]Other debt service in FY2011 includes interest on short-term borrowing and interfund borrowing repayment.

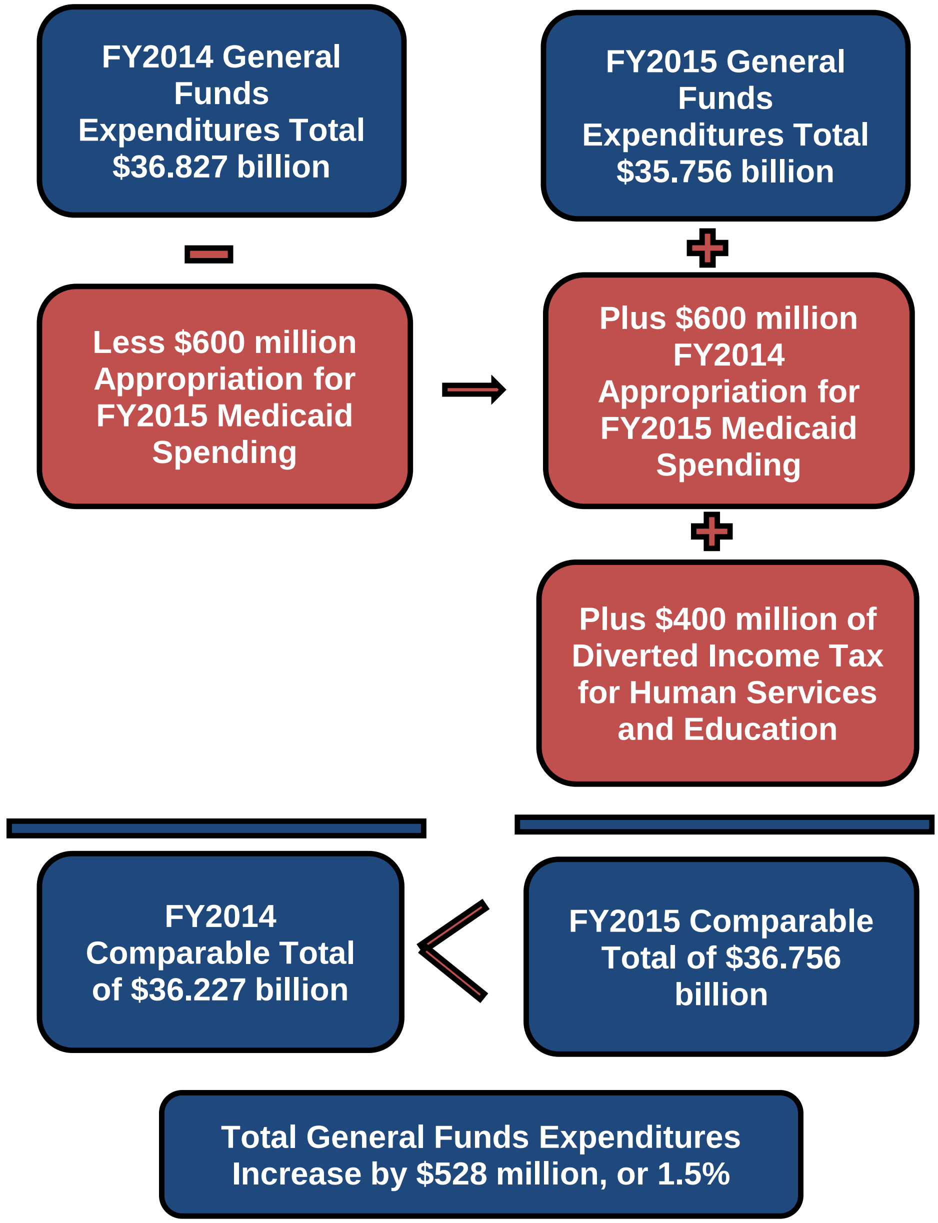
[5]Totals may not add due to rounding.

Source: State of Illinois, General Obligation Bonds, Series of February 2014, O*fficial Statement* , February 6, 2014, pp. 13-16; Illinois State FY2013 Budget, p. 2-31; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Table 1; Public Act 98-0680; Public Act 98-0642; Comunication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

General Funds expenditures appear to decline by $1.1 billion, or 2.9%, in FY2015 from $36.8 billion in 2014 but actually increase by $528 million due to shifting of funds from year to year and among State accounts. FY2014 expenditures are inflated by the Medicaid appropriation of $600 million that is used for FY2015 expenses, and FY2015 expenditures are reduced by $600 million due to transfers out that are not necessary because of the FY2014 funding. [219] In addition, $400 million of individual income tax revenues that would have been deposited into General Funds will be diverted to two new funds outside the General Funds and spent on education and human services in FY2015.[220]

[219] 98th Illinois General Assembly, House Bill 6060, passed by the House on May 28, 2014 and by the Senate on May 30, 2014 (Public Act 98-0642, signed on June 9, 2014), p. 2.
[220] Public Act 98-0677, signed on June 30, 2014; Public Act 98-0680, signed on June 30, 2014, pp. 8 and 56.

The following chart illustrates the shifting of funds and the adjustments necessary to calculate comparable totals for General Funds expenditures from FY2014 to FY2015.



The $528 million is a net amount, covering both increases and decreases in spending. Notable increases include:

- $222 million in additional Medicaid spending relating to new legislation, mainly consisting of increased payments to healthcare providers;[221]
- $200 million in revenues diverted from General Funds that are used for elementary and secondary education (offset by reductions of $82 million in General Funds appropriations).
- $119 million in additional group insurance appropriations;
- $57 million in increased State pension contributions;
- $50 million in additional State contributions to the Public School Teachers' Pension and Retirement Fund of Chicago;
- $42 million in additional appropriations to the Illinois Supreme Court;
- $35 million in additional appropriations to build a public school on Chicago's Southwest Side in the legislative district of the Speaker of the Illinois House of Representatives; and
- $199 million in reduced unspent appropriations, which are not allocated to particular agencies.

The FY2015 budget also includes major spending reductions:

- $179.4 million for the Department of Human Services (offset by $101 million in revenues diverted from General Funds);
- $58 million for the Department of Corrections; and
- $153 million in debt service on pension bonds (offset by an increase of $92 million in other debt service).

During the five-year period, expenditures increase by $1.8 billion, or 5.2%, from $34.0 billion in FY2011. An increase of $2.4 billion in pension contributions is offset by a $1.1 billion decline in net agency appropriations spent. As noted above, FY2015 General Funds spending is understated due to the $600 million HFS appropriation in FY2014 to be spent from the Healthcare Provider Relief Fund in FY2015 and the $400 million revenue diversion.

The following table compares Governor Quinn's recommended FY2015 General Funds expenditures with the enacted FY2015 budget. Total expenditures of $38.1 billion in the Governor's proposed budget are $2.3 billion higher than expenditures of $35.8 billion in the enacted budget.

[221] Public Act 98-0651, signed on June 16, 2014. Most of the Medicaid spending is reimbursable by the federal government at 50.76%, reducing net State costs to approximately $115 million.

State of Illinois General Funds Expenditures: FY2015 Recommended-FY2015 Enacted (in $ millions)				
	FY2015 Rec.	FY2015 Enacted	$ Change	% Change
Agency Appropriations	$ 24,649	$ 23,881	$ (768)	-3.1%
Less Unspent Appropriations	$ (602)	$ (334)	$ 268	-44.5%
Net Agency Appropriations Spent	$ 24,047	$ 23,547	$ (500)	-2.1%
Pension Contributions	$ 6,093	$ 6,046	$ (47)	-0.8%
Group Insurance	$ 1,475	$ 1,565	$ 90	6.1%
Total Appropriations Spent	**$ 31,615**	**$ 31,158**	**$ (457)**	**-1.4%**
Legislatively Required Transfers	$ 2,991	$ 2,377	$ (614)	-20.5%
Debt Service on Pension Bonds	$ 1,503	$ 1,503	$ -	0.0%
Other Debt Service	$ 711	$ 717	$ 6	0.8%
Property Taxpayers Relief Fund	$ 1,275	$ -	$ (1,275)	-100.0%
Total Tranfers Out	**$ 6,480**	**$ 4,597**	**$ (1,883)**	**-29.1%**
Total	**$ 38,095**	**$ 35,755**	**$ (2,340)**	**-6.1%**

Source: Illinois State FY2015 Budget, pp. 2-23, 2-35 and 2-41; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Table 1; Public Act 98-0680; Comunication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

The difference in spending relates partly to the Governor's proposal to use revenues from the extension of higher income tax rates to pay for new $500-a-year grant to State homeowners that would replace the current property tax credit on State income taxes.[222] The total cost of the new program was $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) was $715 million. The proposed grant is not included in the enacted budget.

Total agency appropriations spent are $500 million lower in the enacted budget, with a $768 million decline in agency appropriations partly offset by a $268 million reduction in unspent appropriations. Legislatively required transfers are $614 million lower in the enacted budget. The Governor's budget included a transfer out of $600 million in FY2015 to pay for Medicaid expenses, while the enacted budget relied on the amount being appropriated in FY2014 to be used in FY2015.

[222] The current property tax credit has been reflected (but not shown) in State budgets as a reduction in income tax revenues. In the FY2015 recommended budget the new homeowners' grant program was shown as an expenditure and revenues were increased to offset the revenue loss that would have resulted from the existing property tax credit.

The next table shows legislatively required transfers out of General Funds for FY2011 to FY2015 recommended and enacted. Debt service transfers are discussed on page 61 of this report. Total legislatively required transfers decline by $586 million from $2.96 billion in FY2014 to a projected $2.38 billion in the enacted FY2015 budget, largely because the FY2015 budget does not include the $601 million transfer to the Healthcare Provider Relief Fund. Total legislatively required transfers are virtually flat from $2.40 billion in FY2011.

State of Illinois Legislatively Required General Funds Transfers Out by Fund: FY2011-FY2015 (in $ millions)

Fund	FY2011	FY2014	FY2015 Rec.	FY2015 Projected
Local Government Distributive	$ 1,013	$ 1,223	$ 1,229	$ 1,229
Healthcare Provider Relief	$ 365	$ 601	$ 601	$ -
Public Transportation	$ 407	$ 474	$ 492	$ 492
Downstate Public Transportation	$ 169	$ 216	$ 221	$ 221
Workers' Compensation Revolving	$ 55	$ 81	$ 98	$ 98
School Infrastructure	$ 68	$ 80	$ 64	$ 64
Tourism Promotion	$ 40	$ 48	$ 50	$ 50
University of Illinois Hospital Services	$ 45	$ 45	$ 45	$ 45
Metropolitan Exposition, Auditorium and Office Building	$ 38	$ 38	$ 38	$ 38
Agricultural Premium	$ 24	$ 24	$ 24	$ 24
Live and Learn	$ 21	$ 21	$ 21	$ 21
Audit Expense	$ 18	$ 19	$ 18	$ 18
Metropolitan Pier and Exposition Authority Incentive	$ -	$ 15	$ 15	$ 15
Coal Technology Development	$ 6	$ 10	$ 11	$ 11
Presidential Library and Museum	$ 7	$ 10	$ 10	$ 10
Partners for Conservation	$ 14	$ 14	$ 14	$ 14
Professional Services	$ 5	$ 9	$ 6	$ 6
Convention Center Support	$ -	$ 5	$ 5	$ 5
All Others	$ 103	$ 30	$ 29	$ 16
Total	**$ 2,398**	**$ 2,963**	**$ 2,991**	**$ 2,377**

Source: Illinois State FY2014 Budget, pp. 2-62 to 2-63; Communication between Civic Federation and Governor's Office of Management and Budget, August 15, 2014.

The Local Government Distributive Fund is projected to receive $1,229 million in FY2015, or 51.7% of all such transfers. The amount is virtually unchanged from FY2014 and the same as the Governor's recommendation.

The Local Government Distributive Fund receives the share of State income tax proceeds that is distributed to local governments. The share had been 10% but was lowered in January 2011 after the income tax rates were temporarily increased, so that the State could get the full benefit of the higher rates. Local governments currently receive 6% of individual income tax revenues and 6.86% of corporate income tax revenues. The share paid to local governments is scheduled to increase to 8.0% of individual income tax revenues and 9.14% of corporate tax rates when tax rates roll back on January 1, 2015.[223] The State continues to receive the additional revenues from the higher tax rates.

[223] 35 ILCS 5/901(b).

BUDGET DEFICIT AND UNPAID BILLS

The FY2015 budget results in a total General Funds deficit of $4.0 billion.[224] The total deficit is the sum of the operating surplus or deficit and the accumulated deficit from prior years.

The State has recently dealt with deficits by delaying payments to vendors and local governments and paying those bills from next year's revenues. In addition, the State has masked deficits by incurring costs but not appropriating required funds until the next year. Total General Funds payables and other liabilities are roughly estimated at $6.4 billion at the end of FY2015.

It is important to note that the actual budget deficit at the end of FY2015 is likely to vary from the projection due to fluctuations in revenues and supplemental appropriations enacted during the year. Year-end payables and other liabilities should similarly be regarded as rough estimates, presented to show the approximate magnitude of State obligations and their general trend.

Budget Deficit

The FY2015 budget has General Funds revenues of $35.1 billion and expenditures of $35.8 billion, resulting in an operating deficit of $642 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. Depending on which accounts are tapped, the State might have to pay interest at a relatively low rate on the borrowed funds.

The total deficit is virtually unchanged from FY2014 at $4.0 billion. This represents the accumulated deficit carried over from prior years, slightly reduced by an $8 million operating surplus after borrowing.

[224] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014, Table 1.

The following table shows the State's General Funds budget from FY2011 to FY2015.

State of Illinois General Funds Budget: FY2011-FY2015 (in $ millions)	FY2011	FY2014 Revised[1]	FY2015 Enacted	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
State Tax Revenues	$ 22,921	$ 30,713	$ 28,783	$ (1,930)	-6.3%	$ 5,862	25.6%
State Transfers In	$ 1,857	$ 2,152	$ 1,835	$ (317)	-14.7%	$ (22)	-1.2%
Total State Revenues	**$ 24,778**	**$ 32,865**	**$ 30,618**	**$ (2,247)**	**-6.8%**	**$ 5,840**	**23.6%**
Federal Revenues	**$ 5,386**	**$ 3,903**	**$ 4,496**	**$ 593**	**15.2%**	**$ (890)**	**-16.5%**
Total Operating Revenues	**$ 30,164**	**$ 36,768**	**$ 35,114**	**$ (1,654)**	**-4.5%**	**$ 4,950**	**16.4%**
Net Agency Appropriations Spent	$ 24,610	$ 24,178	$ 23,547	$ (631)	-2.6%	$ (1,063)	-4.3%
Pension Contributions[2]	$ 3,680	$ 5,989	$ 6,046	$ 57	1.0%	$ 2,366	64.3%
Group Insurance	$ 885	$ 1,446	$ 1,565	$ 119	8.2%	$ 680	76.8%
Net Appropriations Spent	**$ 29,175**	**$ 31,613**	**$ 31,158**	**$ (455)**	**-1.4%**	**$ 1,983**	**6.8%**
Statutory Transfers Out[3]	**$ 4,827**	**$ 5,214**	**$ 4,597**	**$ (617)**	**-11.8%**	**$ (230)**	**-4.8%**
Total Operating Expenditures[4]	**$ 34,002**	**$ 36,827**	**$ 35,756**	**$ (1,071)**	**-2.9%**	**$ 1,754**	**5.2%**
Operating Surplus (Deficit)	**$ (3,838)**	**$ (59)**	**$ (642)**	**$ (583)**	**988.1%**	**$ 3,196**	**-83.3%**
Borrowing for Operations	$ 5,426	$ -	$ 650	$ 650	na	$ (4,776)	-88.0%
Operating Surplus (Deficit) After Borrowing	$ 1,588	$ (59)	$ 8	$ 67	-113.6%	$ (1,580)	-99.5%
Accumulated Deficit from Prior Years	$ (6,095)	$ (3,988)	$ (4,047)	$ (59)	1.5%	$ 2,048	-33.6%
Total Deficit	**$ (4,507)**	**$ (4,047)**	**$ (4,039)**	**$ 8**	**-0.2%**	**$ 468**	**-10.4%**

[1]As of June 2014.
[2]Pension contributions in FY2011 were made by issuance of pension obligation bonds.
[3]Includes $32 million in interest on interfund and short-term borrowing in FY2011.
[4]Totals may not add due to rounding.
Source: State of Illinois, General Obligation Bonds, Series of February 2014, *Official Statement*, February 6, 2014, p. 13; Illinois State FY2013 Budget, p. 2-31; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014, Table 1; Illinois State FY2015 Budget, p. 2-35; Public Act 98-0680; Public Act 98-0642; Communication between Civic Federation and Governor's Office of Management and Budget, July 28, 2014.

From FY2009 through FY2011, the State used borrowing to help close the operating deficit. The borrowing included the sale of pension bonds to pay for General Funds pension contributions in FY2010 and FY2011. Aided by increased revenue due to the income tax rate increases in January 2011, the budgets from FY2012 through FY2014 did not rely on borrowing for operations. With the higher income tax rates scheduled to expire midway through the current fiscal year, the FY2015 budget uses interfund borrowing to balance revenues and expenditures.

Unpaid Bills

Illinois has dealt with its General Funds deficit by delaying payments owed to vendors, social service agencies, school districts and other units of local government and paying those bills from the next year's revenue. In general, Section 25 of the State Finance Act requires that bills incurred in a given year be paid out of that year's appropriations.[225]

During the lapse period, next year's revenues may be used to pay this year's bills. The lapse period was extended from two months after the end of the fiscal year to six months in FY2010, FY2011 and FY2012 due to the large amount of outstanding bills on June 30. Beginning in FY2013, the law permanently grants the Comptroller's Office up to six months to pay bills, although the bills are to be paid as soon as practical after the close of the fiscal year.[226]

[225] 30 ILCS 105/25.
[226] 30 ILCS 105/25(m).

The Section 25 deadline for paying bills does not apply to Medicaid bills, State group health insurance claims and certain other State bills. Under exceptions to Section 25, these liabilities can be paid from future years' appropriations. 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. The ability to defer Medicaid bills in this way was curtailed by legislation enacted in 2012.[227] The law limited Section 25 liabilities incurred by the State's principal Medicaid agency, the Illinois Department of Healthcare and Family Services, to $700 million in FY2013 and $100 million thereafter, with certain exceptions.[228] Group health insurance liabilities were not limited by the new 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 has not usually been covered by a 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, but it is included in the FY2015 appropriation bill.[229]

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 owed approximately $112 million in back wages to union employees as a result of a dispute over cancelled raises.[230] A Cook County Circuit Court judge in December 2012 ordered the State to pay the back wages when funds were available, and Governor Pat Quinn agreed to make the payments as part of contract negotiations with the American Federation of State, County and Municipal Employees (AFSCME).[231] Capital appropriations legislation enacted in June 2014 included $50 million in supplemental appropriations from General Funds to various agencies in FY2014 to pay a portion of the back wages, leaving approximately $62 million still owed by the State.[232]

[227] Public Act 97-0691, signed on June 14, 2012.
[228] The main exception relates to costs incurred by the end of the fiscal year but not recorded until after June 30.
[229] Public Act 98-0680, signed on June 30, 2014, p. 8.
[230] State of Illinois, General Obligation Bonds, Series of February 2014, *Preliminary Official Statement*, January 24, 2014, p. 16.
[231] John O'Connor, "Quinn wants attorney general to drop back-pay lawsuit," *State Journal-Register*, April 25, 2013.
[232] Public Act 98-0675, signed with a line-item veto on June 30, 2014, pp. 1139-1140.

The next table provides estimates of General Funds payables and other General Funds liabilities from the end of FY2011 to the end of FY2015. The table is intended to show the obligations that remain unpaid at the end of the fiscal year, requiring payment out of the following year's revenues. This reduces the resources available to pay next year's expenses, leaving a hole in that year's budget.[233]

State of Illinois Estimated General Funds Unpaid Bill Backlog at Fiscal Year End: FY2011-FY2015 (in $ millions)					
	FY2011	FY2012	FY2013	FY2014	FY2015
General Funds Payables	$ 4,976	$ 5,024	$ 4,142	$ 4,121	$ 4,113
Healthcare and Family Services	$ 603	$ 2,100	$ 615	$ 300	$ 300
Human Services	$ 57	$ 201	$ 19	$ -	$ 270
Community Care	$ 100	$ 173	$ -	$ -	$ 130
Group Health Insurance	$ 1,049	$ 1,183	$ 1,351	$ 1,500	$ 1,500
Income Tax Refunds	$ 646	$ 72	$ 45	$ 2	n/a
Back Wages Owed	$ -	$ -	$ 112	$ 62	$ 62
Total	**$ 7,431**	**$ 8,753**	**$ 6,284**	**$ 5,985**	**$ 6,375**

Source: Civic Federation calculations based on State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Tables 1 and 1A; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement* , April 25, 2014, pp. 54-55; 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 19, 2014.

Total General Funds payables and Other General Funds liabilities increase by $390 to $6.4 billion at the end of FY2015 from $6.0 billion at the end of FY2014. The projected increase is attributable to $400 million in FY2015 costs that were not covered by the budget but can be deferred to FY2016.[234] These costs consist of $130 million related to the Community Care Program and $270 million at the Department of Human Services related to costs for low-income child care and long-term care grants for the developmentally disabled.

In addition to the costs that can be shifted to FY2016, the Governor's Office has stated that the enacted FY2015 budget is $470 million short of providing adequate funding to maintain existing programs, operations and agencies, including payrolls.[235] If the projected shortfall is not funded through supplemental appropriations, operational shutdowns will be required, according to the Governor's Office.

The underfunding includes operational expenses of $130 million at the Department of Human Services, $90 million at the Department of Corrections, $30 million at the Department of Central Management Services and $20 million at the Department of Revenue.[236] There is also a shortfall of $60 million related to mental health grants at the Department of Human Services.

[233] At the end of FY2014, the State is expected to have a cash balance of $74 million and $276 million in its Budget Stabilization Fund, which is used for cash flow needs within a given fiscal year.
[234] Communication between the Civic Federation and the Governor's Office of Management and Budget, September 30, 2014.
[235] State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement*, July 18, 2014
[236] Communication between the Civic Federation and the Governor's Office of Management and Budget, September 30, 2014.

DEBT BURDEN AND RATINGS

In FY2015 the State of Illinois will pay debt service totaling \$3.9 billion due on \$31.3 billion of principal owed for all outstanding General Obligation Bonds and Build Illinois Bonds.[237] The State currently owes \$16.4 billion in interest on these bonds through FY2039 for a total outstanding debt service cost of \$47.7 billion.

Although the total debt service represents the entire annual payment due to bond holders during the fiscal year, only a portion of the repayment is made through a transfer from the General Funds. The remaining amounts are paid through transfers from Other State Funds that are funded through separate designated revenue sources. The General Funds transfer for FY2015 totals \$2.2 billion, or 7.2% of State-source General Funds resources.

Total Debt

The State is authorized under the General Obligation Bond Act to issue bonds to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[238] In 2003 the State amended the act to include the authorization to issue Pension Obligation Bonds (POBs), used to increase the assets in its pension funds and make the required annual contributions to the State's five retirement systems. General Obligation (GO) bonds are guaranteed by a pledge of the full faith and credit of the State, which is a legally binding pledge to pay both principal and interest on these loans as required by the bond agreements prior to any other use of State funds.

The State issued a total of \$3.7 billion in capital GO bonds during FY2014.[239] After accounting for debt service payments made in FY2014, total outstanding capital purpose GO bonds increased by \$849.8 million to \$14.3 billion in FY2015 from \$13.5 billion in FY2014.[240] The interest owed on the State's outstanding capital-purpose GO bonds increased by \$347.2 million to \$7.9 billion in FY2015 from \$7.6 billion in FY2014. The combined total debt service owed on all outstanding capital GO bonds totals \$22.3 billion in FY2015 compared to \$21.1 billion in FY2014.

Under the 2003 pension bond authorization, the State issued \$10 billion in POBs that are repaid through FY2033, of which \$7.2 billion was used to increase the assets of the State's retirement systems. The remainder was used to make the part of the State's statutorily required contributions that would have otherwise been made from General Funds resources in FY2003 and the entire FY2004 contribution. The pension bond authorization was increased in FY2010 by \$3.5 billion to make the annual contributions that otherwise would have come from the State's General Funds. The FY2010 POBs are repaid through FY2015. In FY2011 the State again issued POBs to make its annual contribution to its retirement systems, this time totaling \$3.7 billion to be repaid over eight years. The FY2011 POBs will be completely retired in FY2019.

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[237] State of Illinois General Obligation Bonds, Series May 2014, *Official Statement*, April 25, 2014, p. 53, State of Illinois, Build Illinois Bonds, Series March 2014, *Official Statement*, March 11, 2014, p. 20.
[238] 30 ILCS 330/1.
[239] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August 1 2014, p 191.
[240] State of Illinois, General Obligation Bonds, Series of June 2013, *Official Statement*, June 26, 2013.

Interest on the $3.5 billion of POBs sold in FY2010 totaled $382 million over five years. The FY2011 bonds, which totaled $3.7 billion, cost the State a total of $1.3 billion of interest over eight years.[241] The FY2011 pension debt included $234 million more principal than the FY2010 POBs, or 6.8%, but the interest owed on the bonds was $897.5 million greater, or 234.8%. The significant increase in the borrowing costs is due to the structure of the FY2011 bonds, which backload the principal repayment into the later years of the bonds and pays mostly interest only until the FY2010 bonds are repaid in FY2015.

The FY2003 POBs are also back loaded. The State paid interest only on the loan through FY2007. Then annual principal amounts increased to $50 million per year from FY2008 through FY2011 and to $100 million per year from FY2012 through FY2016. Beginning in FY2017, principal repayment increases annually by increments of $25 million, $50 million or $100 million through FY2033, when $1.1 billion is due in the final year of the loan. More than 75% of the principal borrowed will be repaid in the final 10 years of the debt service schedule leading to interest cost of $11.9 billion over 30 years due on the original $10 billion of borrowed funds.

Total principal owed on all outstanding POBs in FY2015 totals to $14.0 billion, a decrease of $711.2 million from the total of $14.7 billion in FY2014.[242] The outstanding interest owed on the pension debt declined by $740.9 million to $7.2 billion in FY2015 from $8.0 billion in FY2014. The remaining debt service, including principal and interest, on the State's pension bonds totals $21.2 billion in FY2015 compared to $22.7 billion in FY2014. The State has not issued new POBs since FY2011.

Illinois also depends on several types of revenue bonds to fund capital projects. Unlike GO bonds, revenue bonds are not guaranteed by the full faith and credit of the State but rather pledge a portion of specific state revenues. The largest ongoing revenue bond program are the Build Illinois Bonds, which began in 1985. Build Illinois Bonds are paid through a pledge of the State's portion of sales tax receipts.[243] The total bond authorization has been increased by the General Assembly on several occasions since the late 1980s. The State issued a total of $402 million in new Build Illinois Bonds in FY2014 but does not anticipate selling additional bonds under the program in FY2015.[244]

Beginning in FY2010, the new Build Illinois Bonds sold to support the *IllinoisJobsNow!* capital spending program also receive a transfer from the Capital Projects Fund to pay for the increase in debt service. Although the new Build Illinois Bonds are structured to receive additional funding from the revenue package of taxes and fees approved in 2009 to fund the increased capital appropriations, the bonds are still backed by the State's sales tax revenues.[245] The State is required to transfer the larger of 3.8% of its share of the sales taxes collected each year or the certified annual debt service owed on all outstanding Build Illinois Bonds.

In FY2015 the State owes outstanding principal on Build Illinois Bonds totaling $3.0 billion compared to $2.8 billion in FY2014. Interest on the loans totals $1.2 billion in FY2015, which is an increase of $87.3 million from a total of $1.1 billion in FY2014. Total debt service on all outstanding Build Illinois Bonds increased by $270.7 million to $4.2 billion in FY2015 from $3.9 billion in FY2014.

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[241] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2015*, August, 1 2014, p 194.
[242] State of Illinois, General Obligation Bonds, Series of June 2013, *Official Statement*, June 26, 2013, p. 50.
[243] Build Illinois Bond Act, 30 ILCS 425.
[244] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2014*, August 2013, p 191.
[245] For more information on the State capital budget see page 63 of this report.

The following chart shows the total principal, interest and debt service in FY2015 compared to FY2014 for all GO bonds and Build Illinois Bonds currently outstanding.

State of Illinois Total Outstanding General Obligation and Build Illinois Bonds FY2014 and FY2015 (in $ millions)*				
	FY2014	FY2015	$ Change	% Change
Principal				
GO Capital	$13,487.5	$14,337.3	$ 849.8	6.30%
GO Pension	$14,686.4	$13,975.2	$ (711.2)	-4.84%
Build Illinois	$ 2,798.9	$ 2,982.3	$ 183.4	6.55%
Total Principal	**$30,972.9**	**$31,294.8**	**$ 322.0**	**1.04%**
Interest				
GO Capital	$ 7,576.5	$ 7,923.8	$ 347.2	4.58%
GO Pension	$ 7,986.3	$ 7,245.4	$ (740.9)	-9.28%
Build Illinois	$ 1,133.6	$ 1,220.9	$ 87.3	7.70%
Total Interest	**$16,696.4**	**$16,390.0**	**$ (306.3)**	**-1.83%**
Debt Service				
GO Capital	**$21,064.1**	**$22,261.1**	**$ 1,197.0**	**5.68%**
GO Pension	**$22,672.7**	**$21,220.6**	**$ (1,452.1)**	**-6.40%**
Build Illinois	**$ 3,932.5**	**$ 4,203.2**	**$ 270.7**	**6.88%**
Total	**$47,669.2**	**$47,684.9**	**$ 15.6**	**0.03%**

*At the beginning of the fiscal year.

Source: General Obligation Bonds, Series May 2014, *Official Statement* , April 25, 2014, p. 53, State of Illinois, Build Illinois Bonds, Series March 2014, *Official Statement* , March 11, 2014, p. 20; State of Illinois, General Obligation Bonds, Series of June 2013, Official Statement, June 26, 2013, p. 50; State of Illinois, Build Illinois Bonds, Junior Obligation Series of June 2013, *Official Statement* , June 15, 2013, p. 18.

The State of Illinois has issued more principal debt than it has repaid over the last five fiscal years due to the ongoing capital program and the issuance of POBs. This has led to an increase of $3.3 billion in principal owed by the State in FY2015 from the total principal debt of $28.0 billion in FY2011.

However, the interest owed on the State's outstanding debt has declined by $125.2 million over the same period, primarily due to the increased interest payments on the State's outstanding POB issuances over the last five years. Interest owed on POBs is $1.6 billion less in FY2015 totaling $7.2 billion compared to $8.9 billion in FY2011. Principal owed on POBs is $659.2 billion higher than in FY2011. This disparity between the increase in principal and interest owed is due to the heavy back-loading of principal in the FY2003 and FY2011 POBs. Interest owed on all outstanding GO bonds and Build Illinois Bonds totals $16.4 billion in FY2015 compared to $16.5 billion in FY2011.

The following chart compares the outstanding principal, interest and total debt service on all Build Illinois Bonds, GO capital bonds and POBs from FY2011 to FY2015.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds Five-Year Comparison FY2011 to FY2015 (in $ millions)*							
	FY2011	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**5-year $ Change**	**5-year % Change**
Principal							
GO Capital	$12,340.1	$11,428.9	$12,071.4	$ 13,487.5	$14,337.3	$ 1,997.2	16.2%
GO Pension	$13,316.0	$16,272.8	$15,479.0	$ 14,686.4	$13,975.2	$ 659.2	5.0%
Build Illinois	$ 2,336.1	$ 2,171.2	$ 2,896.3	$ 2,798.9	$ 2,982.3	$ 646.2	27.7%
Total Principal	**$27,992.1**	**$29,872.9**	**$30,446.7**	**$ 30,972.9**	**$31,294.8**	**$ 3,302.7**	**11.8%**
Interest							
GO Capital	$ 6,559.9	$ 5,917.6	$ 6,009.1	$ 7,576.5	$ 7,923.8	$ 1,363.9	20.8%
GO Pension	$ 8,861.1	$ 9,538.8	$ 8,754.1	$ 7,986.3	$ 7,245.4	$ (1,615.7)	-18.2%
Build Illinois	$ 1,094.3	$ 960.2	$ 1,328.7	$ 1,133.6	$ 1,220.9	$ 126.6	11.6%
Total Interest	**$16,515.3**	**$16,416.6**	**$16,091.9**	**$ 16,696.4**	**$16,390.0**	**$ (125.2)**	**-0.8%**
Debt Service							
GO Capital	**$18,900.0**	**$17,346.5**	**$18,080.5**	**$ 21,064.1**	**$22,261.1**	**$ 3,361.1**	**17.8%**
GO Pension	**$22,177.1**	**$25,811.6**	**$24,233.1**	**$ 22,672.7**	**$21,220.6**	**$ (956.5)**	**-4.3%**
Build Illinois	**$ 3,430.3**	**$ 3,131.4**	**$ 4,225.0**	**$ 3,932.5**	**$ 4,203.2**	**$ 772.8**	**22.5%**
Total	**$44,507.4**	**$46,289.5**	**$46,538.6**	**$ 47,669.2**	**$47,684.9**	**$ 3,177.5**	**7.1%**

*As the beginning of the fiscal year.

Source: State of Illinois, General Obligation Bonds, Series May 2014, *Official Statement* , April 25, 2014, p.53; State of Illinois, Build Illinois Bonds, Series March 2014, *Official Statement* , March 11, 2014, p. 20; State of Illinois, General Obligation Bonds, Series of June 2013, *Official Statement* , June 26, 2013, p. 50; State of Illinois, General Obligation Bonds, Series of May 2009, *Official Statement* , May, 21, 2009, p. 36; State of Illinois, Build Illinois Bonds, Junior Obligation Series of June 2013, *Official Statement* , June 15, 2013, p. 18; Illinois State FY2010 Budget, p. 12-11; State of Illinois, General Obligation Bonds, Taxable Build America Bonds Series 2010-5, *Official Statement* , July 14, 2010, p. 38; State of Illinois, General Obligation Bonds, Taxable Series of February 2011, *Official Statement* , Feb. 23, 2011, p. 43.

Several other smaller debt-funded capital programs are supported by either direct appropriations or pledges in support of repayment but are not included in the total debt service figures above. These debts do not significantly affect the State's General Funds operating expenses and are typically funded through dedicated revenue sources and shared costs with local governments.

The Metropolitan Exposition and Auditorium Authorities bond program was supported by the issuance of Civic Center Bonds, the last of which were sold in 1992. As of FY2014, outstanding Civic Center Bonds total $72.8 million; the State will make its final payment on this debt in FY2028. Although originally financed in part by horseracing taxes, these bonds are now fully repaid by General Funds and are treated more like GO bonds. The Civic Center bonds were issued using a level debt service structure and the State will pay $13.9 million annually through FY2016 and make annual payments of $14.4 million thereafter until the remaining bonds are completely retired.[246]

The State has supported bond payments owed by the Metropolitan Pier and Exposition Authority (MPEA), which manages Navy Pier and the McCormick Place Convention Center in Chicago. State funds are used to prefund its debt service and the Authority repays the State from its annual revenues. The MPEA did not completely repay the State between FY2009 and FY2011 and received a direct appropriation of $25.8 million in FY2011 to support its debt service and operations. The MPEA owes the State $57 million, which is expected to be repaid through a share of expected revenue surplus after

[246] Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2014*, April 2013, p. 30.

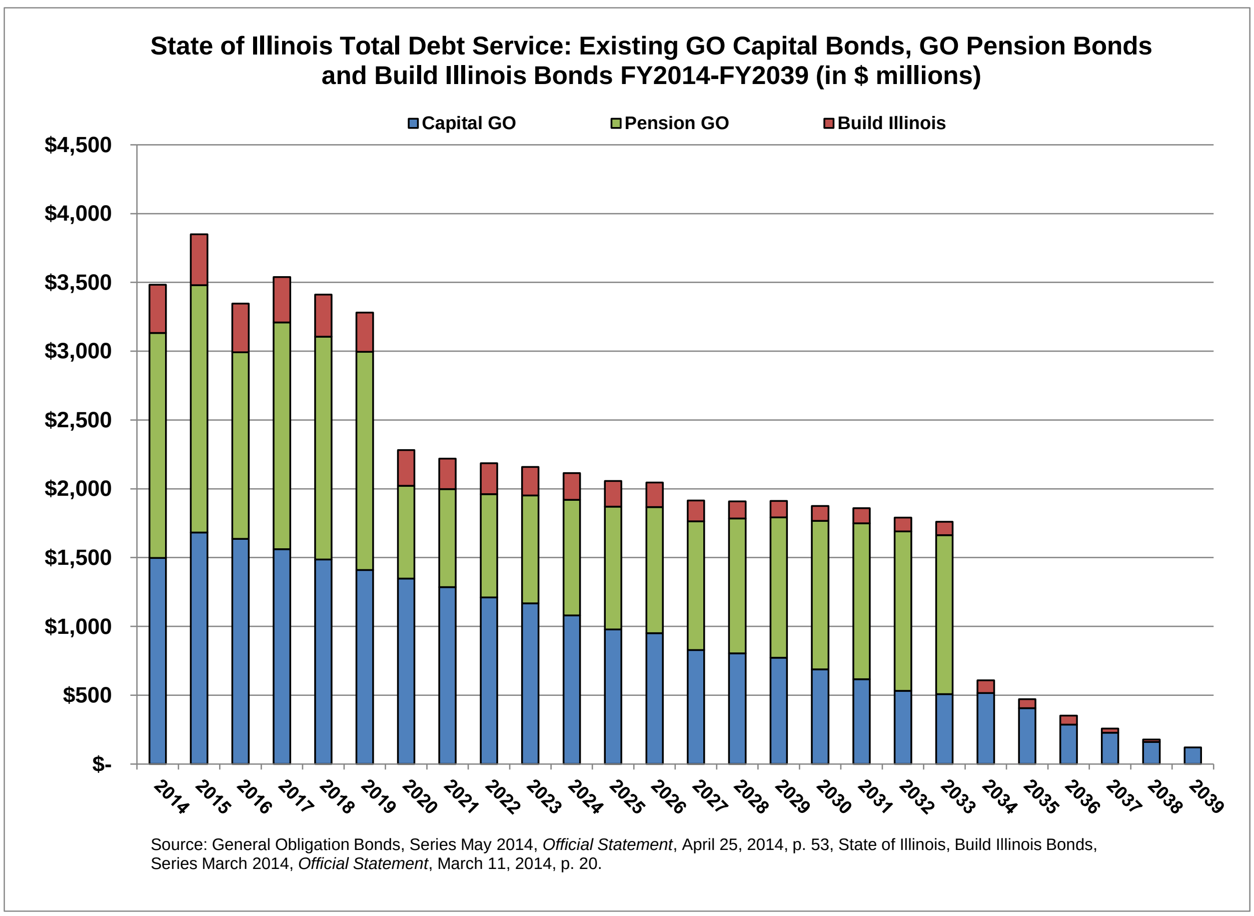
FY2015.[247] The City of Chicago also pledges revenue from its airport departure tax, automobile renting tax, hotel tax and local restaurant sales tax to support bonds issued by the MPEA for expansion.

Debt Service

The State's debt service schedule sets forth the principal and interest amounts due to investors for its outstanding bonds on an annual basis. In FY2015 the State is required to pay a total of $3.9 billion for all outstanding GO Bonds, POBs and Build Illinois Bonds.[248] The largest portion of this payment is due on POBs, totaling $1.8 billion. Debt service in FY2015 totals $1.7 billion for capital-purpose GO bonds and $370.0 million for Build Illinois Bonds.

Based on the State's current bonded indebtedness, debt service payments will peak in FY2015 before declining marginally through FY2019 to $3.2 billion. Once the State has paid off the FY2011 POBs, debt service declines by $998 million to $2.3 billion in FY2020.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds and other capital bonds through FY2039.[249]



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[247] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2014*, August 2013, p. 48.
[248] State of Illinois General Obligation Bonds, Series May 2014, *Official Statement*, April 25, 2014, p. 53, State of Illinois, Build Illinois Bonds, Series March 2014, *Official Statement*, March 11, 2014, p. 20.
[249] For more details on total debt service, see Appendix D on page 72 of this report.

As noted above, the State does not pay for all debt service out of General Funds. Revenue bonds have specific dedicated sources outside the General Funds. GO capital bonds are funded through transfers from the Road Fund, Capital Projects Fund, School Infrastructure and State Construction Fund, in addition to the General Funds.

The enacted FY2015 budget includes debt service transfers from General Funds totaling $2.2 billion, a decrease of $63.0 million from FY2014.[250]

The debt service transfer associated with capital GO bonds in FY2015 increases by $92 million totaling $717 million compared to $625 million in FY2014. Over the last five years the General Funds debt service cost for capital bonds has increased $177 million from a total of $540 million in FY2011. The operating budget incurs higher costs for capital purpose debt service due to the shortfall in revenues in the Capital Projects Fund.[251] The State enacted a package of revenues in order to fund the borrowing for the $31 billion *Illinois Jobs Now!* capital program, which included $16 billion worth of new bond funded projects in FY2010. However, due to slow implementation of the new revenue sources and lower receipts earned than expected, the General Funds transfer for capital bond debt service continues to grow.[252]

The increase in capital purpose GO bond debt service paid from the State's General Funds is offset by a decline in the debt service on the outstanding POBs. Debt service transferred to pay for POBs totals $1.5 billion in FY2015 compared to $1.7 billion in FY2014.

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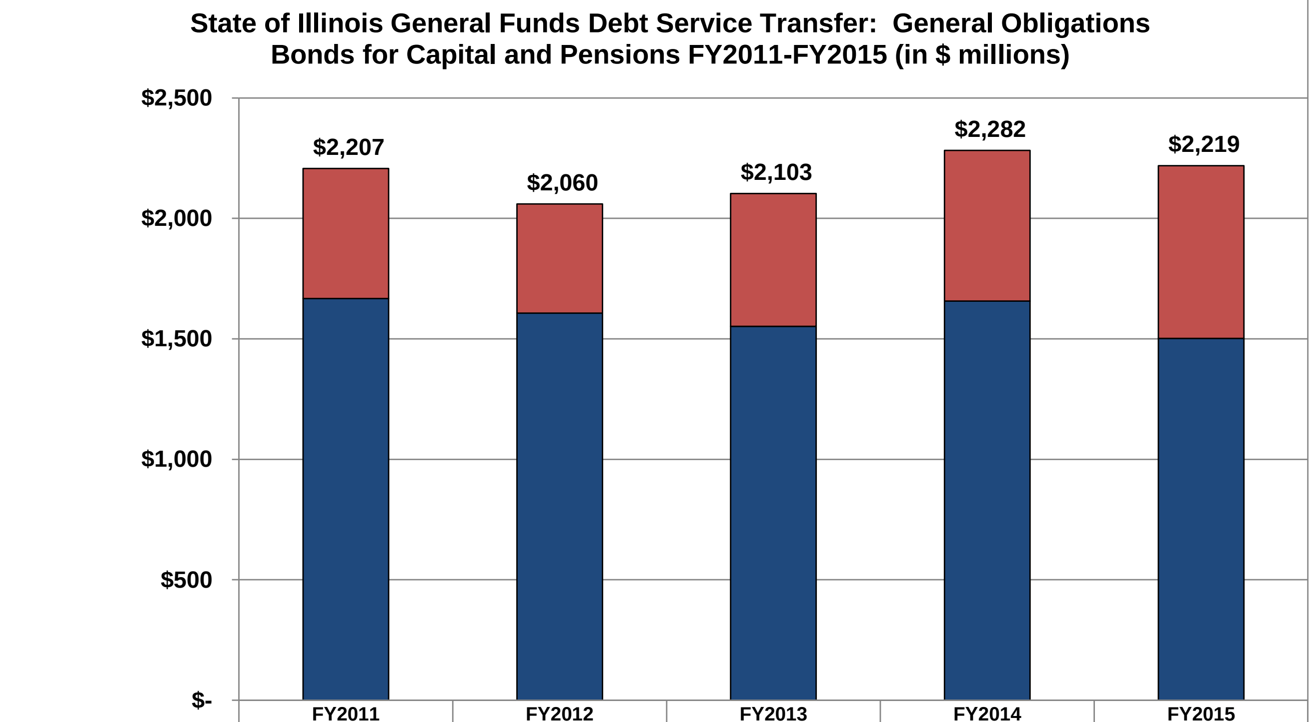
[250] Source: State of Illinois, General Obligation Bonds, Series May 2014,*Official Statement*, April 25, 2014, p. 15; State of Illinois, General Obligation Bonds, Series May 2014, *Supplement to the Official Statemen*t, July 18, 2014.

[251] For more information on the Capital Projects Fund see page 68 of this report.

[252]For more details on the FY2015 Capital Budget see page 63 of this report.

The following chart shows the General Funds cost of debt service paid on the State's General Obligation bonds, both capital and pension related, for FY2011 through FY2015.



	FY2011	FY2012	FY2013	FY2014	FY2015
Debt Service Transfer	$2,207	$2,060	$2,103	$2,282	$2,219
Capital	$540	$453	$551	$625	$717
Pensions	$1,667	$1,607	$1,552	$1,657	$1,502

Source: State of Illinois, General Obligation Bonds, Series May 2014,*Official Statement*, April 25, 2014, p. 15; State of Illinois, General Obligation Bonds, Series May 2014, *Supplement to the Official Statemen*t, July 18, 2014.

Funding to pay for the Build Illinois Bonds debt service is diverted from the State's portion of sales tax receipts prior to being deposited into the General Funds. Although these bonds are not paid for through a General Funds transfer, the cost of the Build Illinois Bonds reduces the amount of sales tax revenues that would otherwise be available to fund the annual operating budget.

Short-Term Debt

Short-term debt is a financial obligation that must be satisfied within one year. The amount of short-term debt issued is a good measure of budgetary solvency, or a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. The State of Illinois Short Term Borrowing Act governs the State's ability to access short-term capital.[253]

Under the Short Term Borrowing Act, the State may issue short-term debt certificates based upon revenue anticipation or shortfall. The act provides for two qualifications for short-term borrowing. If the State experiences significant timing variations between disbursement of appropriations and receipt of revenues, it may borrow up to 5% of the State's total appropriations for that fiscal year, which must

[253] 30 ILCS 340 (2004).

be repaid entirely within the same budget cycle.[254] The State may also borrow up to 15% of the total appropriations for any year if there is a declared failure in revenue.[255] Failure of revenue borrowing must be paid back within 12 months of issuance.

When the State issues failure of revenue borrowing and does not repay the debt until the following fiscal year, it effectively transfers current liabilities into future fiscal years. This is an indicator of deficit spending in the year the debt is issued.

The State has not issued short-term debt since FY2011 and did not include any short-term borrowing as part of the FY2015 enacted budget. Rather than relying on short-term debt to finance its deficits, the State has extended its lapse period spending, the time available to use subsequent year resources to pay current year expenses, from 60 days to six months.[256] Beginning in FY2010, the State took action in each budget year to extend the lapse period deadline to pay all of its prior year bills from August 30 to December 31. This change was made permanent in FY2013.[257]

The FY2015 budget does not include the issuance of short-term debt. However, it does include interfund borrowing totaling $650 million to help cover the loss of revenues in FY2015. The State has in excess of 600 special funds that are intended for designated purposes outside of its General Funds operations. These accounts receive revenues through designated fees, grants or payments from other governments. Borrowing from these funds to pay for General Funds operations was also approved with the same terms in FY2011. The State has 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 special funds. The State was also required to reimburse the special funds for any interest that would have otherwise accrued if the funds had not been borrowed or pay any penalties incurred due to a lack of funds in the accounts.

In FY2011 the General Assembly authorized the Governor to borrow nearly $1.0 billion from the State's special funds to pay for its General Funds operating costs. Interfund borrowing in FY2011 totaled $496.0 million from nearly 200 funds, which were repaid over 18 months and at an interest cost of $878,187.00, according to quarterly reports published by the Governor's Office of Management and Budget.

The cost of interfund borrowing is relatively low, totaling only 0.17% in interest paid. However, by using borrowed funds to pay for General Funds operations the State pushed FY2011 operating liabilities into future years, increasing the total operating expenses in FY2012 and FY2013 due to the required repayments of $355 million and $133 million respectively. Borrowed funds are also one-time resources that create gaps in future operating budgets and must be replaced by additional borrowing, budget cuts or revenues in future years.

The total costs of the $650 million interfund borrowing in FY2015 will not be known until after the funds are repaid. The timing of the repayment is managed by the Governor's Office of Budget and Management and not specified other than within 18 months of the transfer to the General Funds.

[254] 30 ILCS 340/1 (2004).
[255] 30 ILCS 340/1.1 (2004).
[256] Public Act 97-0732.
[257] Public Act 97-0932.

Bond Ratings

Bond ratings are one of the factors that weigh heavily in determining the interest rates the State must pay to issue debt. The State of Illinois' ratings have been lowered by all three rating agencies multiple times over the last several years, which has led to an overall increase in debt service costs above better rated governments.

The following table compares the State's GO bond ratings from all three agencies in FY2014 to the ratings at the beginning of each fiscal year since FY2008, which is the last time the State was rated 'AA' by all three agencies.

State of Illinois General Obligation Bond Ratings FY2008-FY2013			
	Moody's Investors Service	**Standard & Poor's**	**Fitch Ratings**
FY2008	Aa3	AA	AA
FY2009	A1	AA-	A
FY2010	A1, Aa3*	A+	A-, A+*
FY2011	A1	A+	A
FY2012	A2	A+	A
FY2013	A2	A	A
FY2014	A3	A-	A-

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

Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2014* , August 2013, pp. 193-195.

Illinois' bond rating is the lowest of all 50 states, leading to dramatically higher borrowing costs than better-rated governments. After the Illinois General Assembly enacted its FY2014 budget without approving reforms to address the State's underfunded retirement systems, two of the three major rating agencies downgraded the State's bond ratings.[258] Both Fitch Ratings and Moody's Investors Service cut the State's rating one level, while Standard and Poor's affirmed its existing A- rating.[259]

The FY2014 downgrades put Illinois on the final step of the 'A' ratings for all three agencies before entering 'BBB" status. Fitch and S&P have downgraded Illinois' rating six steps in the past five years, while Moody's has reduced its level four times. All three agencies currently include a negative outlook on the State's finances, indicating the possibility for further downgrades. After the State passed pension reform in December 2013, S&P improved its outlook for the State to developing, but shortly after the State enacted the FY2015 budget, the agency reversed the status back to negative.[260]

The State also maintains five derivative instruments, also known as swaps, associated with variable rate bonds with a notional value of $600 million that were sold in 2003. These swap contracts convert the State's variable rate debt to synthetically fixed rate payments through agreements with counterparties that are intended to offset interest rate risk. However, under the terms of the contract, if the State's credit rating falls below a certain threshold the deal is terminated and the State must pay the market value of the deals at the time of the termination. The State also then would continue to pay the

[258] For more information on the State retirement systems, see page 33 of this report.
[259] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2014*, August 2013, p. 193.
[260] Standard and Poor's, "Illinois Outlook Revised To Developing From Negative On Pension Consensus; Series 2013 GO Debt Rated 'A-'," December, 10, 2013; Standard and Poor's, "Illinois Outlook Revised To Negative From Developing Following Enactment Of Fiscal 2015 Budget," July 23, 2014.

variable rate interest on the loans as set forth in the original bond sale. If the ratings for the State's GO Bonds falls below Baa3 with Moody's or BBB for Fitch and S&P, then the State would owe whatever the current calculated market value of the swaps were at that time. As of June 30, 2013 the State's swaps portfolio has a negative value of $123.7 million. The State's credit rating would trigger its swaps termination clauses if Moody's reduced its credit rating by four levels or if Fitch or S&P reduced its rating by three levels.

Despite the low ratings compared to other states, Illinois' bonds are still considered investment grade. This means that investors can be assured of the government's good credit and face little or no risk of default, according to the agencies' rating definitions. The State would need to be downgraded at least five more levels to be considered at risk of default by the issuer or a speculative grade credit. Speculative grade bonds are sometimes referred to as junk bonds and typically pay much higher rates of interest to investors due to the additional risk of defaulting on the loans.

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

Major Credit Ratings Agencies: Ratings Scales and Definitions

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

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

CAPITAL BUDGET

The capital budget enacted for FY2015 includes a total of $21.0 billion in new and reauthorized projects and marks the sixth year of the *Illinois Jobs Now!* capital spending program.

Unlike the State's General Funds budget, which is intended to cover only the cost of the State's operations for the current fiscal year, capital appropriations are reauthorized over multiple years as planning, engineering and construction of capital investments commences. The total spending approved in the FY2015 capital budget includes funding from the State, grants from the federal government and local matching funds. Since 2005 the capital budget has been proposed in a separate document from the State's operating budget and is not part of the annual General Funds expenditures.

The enacted FY2015 capital budget includes a total of $4.2 billion in new appropriations and reauthorization of $16.9 billion in previously approved projects, bringing the total to $21.0 billion in enacted capital spending.

Governor Pat Quinn recommended a capital budget for FY2015 totaling $19.5 billion that did not include any new bond-funded projects. However, the General Assembly enacted $1.1 billion of new road projects to be funded through an increased debt authorization.[261]

The total reappropriations enacted in the FY2015 capital budget increased by $311.6 million to $16.9 billion from $16.5 billion included in the Governor's recommendation. The capital reappropriation approved by the General Assembly for FY2015 was also reduced by $250 million due to a line item reduction veto made by Governor.[262] The funding was originally approved in FY2010 as part of several grants for renovations to the Capitol Complex, in Springfield, Illinois. The $250 million item was a grant to the Architect of the Capital, which has completed more than $50 million of previous projects already funded through the capital budget.

New projects included in the enacted FY2015 capital budget increased by a total of $1.2 billion to $4.2 billion from the Governor's recommended total of $2.9 billion.

The following table compares the capital budget proposed by the Governor for FY2015 to the enacted capital budget for FY2015.

State of Illinois Capital Budget: FY2015 Enacted Compared to Governor's Recomended (in $ millions)

	FY2015 Rec.	FY2015 Enacted	$ Change	% Change
Reappropriation	$ 16,542.5	$ 16,854.1	$ 311.6	1.9%
New	$ 2,947.1	$ 4,176.4	$ 1,229.3	41.7%
Total	**$ 19,489.6**	**$ 21,030.5**	**$ 1,540.9**	**7.9%**

Source: Illinois State FY2015 Capital Budget pp. 11, 12; Governor's Office of Management and Budget, *Fiscal Year 2015, Enacted Budget by Line Item* . http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx (last visited September 30, 2014)

[261]Public Act 98-0780, signed on July 22, 2014.
[262]Public Act 98-0675, Governor's Message, June 30, 2014.

The capital budget proposed for FY2015 is $1.2 billion less than the FY2014 enacted capital budget, which totaled $22.3 billion. The authorized capital spending for FY2014 included $3.4 billion in new appropriations and $18.8 billion in reappropriations. Although the new appropriations in FY2015 exceed the FY2014 authorization by $747.8 million, the decline in reappropriations of $2.0 billion offset the increase.

The following table shows the enacted FY2015 capital budget compared to the FY2014 authorization.

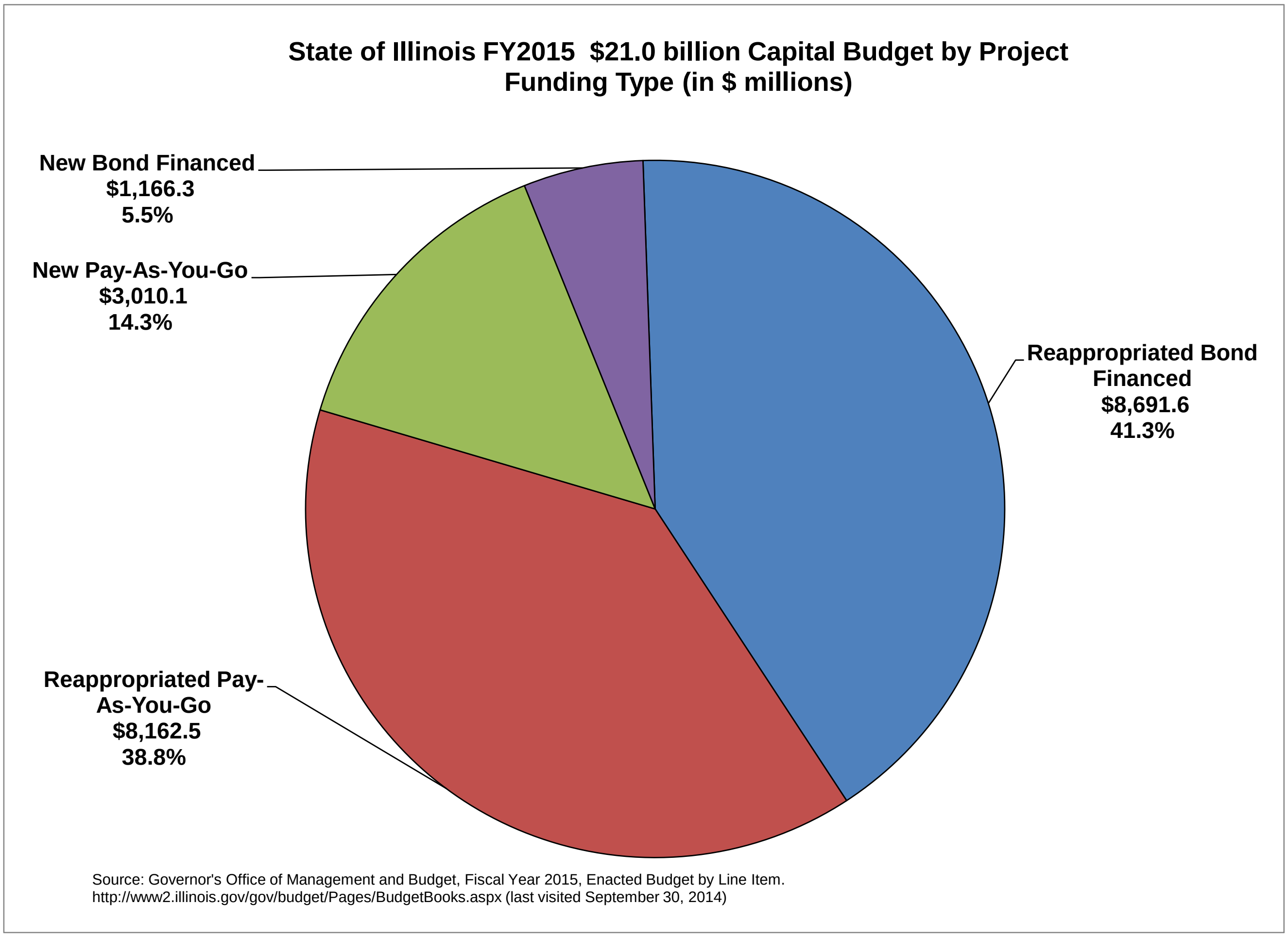
State of Illinois Capital Budget: Enacted FY2015 Compared to Enacted FY2014 (in $ millions)

	FY2014 Enacted	FY2015 Enacted	$ Change	% Change
Reappropriation	$ 18,839.7	$ 16,854.1	$ (1,985.6)	-10.5%
New	$ 3,428.6	$ 4,176.4	$ 747.8	21.8%
Total	**$ 22,268.3**	**$ 21,030.5**	**$ (1,237.8)**	**-5.6%**

Source: Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2015* , May 2014, p. 8; Governor's Office of Management and Budget, *Fiscal Year 2015, Enacted Budget by Line Item* . http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx (last visited September 30, 2014)

Bond funded projects make up $9.9 billion of the total approved spending in FY2015, while $11.2 billion are pay-as-you-go projects financed with available funds. Of the total $4.2 billion of new appropriations passed in FY2015, $1.2 billion are bond financed projects and $3.0 billion are paid for with available funds. The capital reappropriations approved in FY2015 include $8.7 billion of bond financed projects and $8.1 billion of pay-as-you-go projects.

The following chart shows the total FY2015 capital budget by the type of project funding.

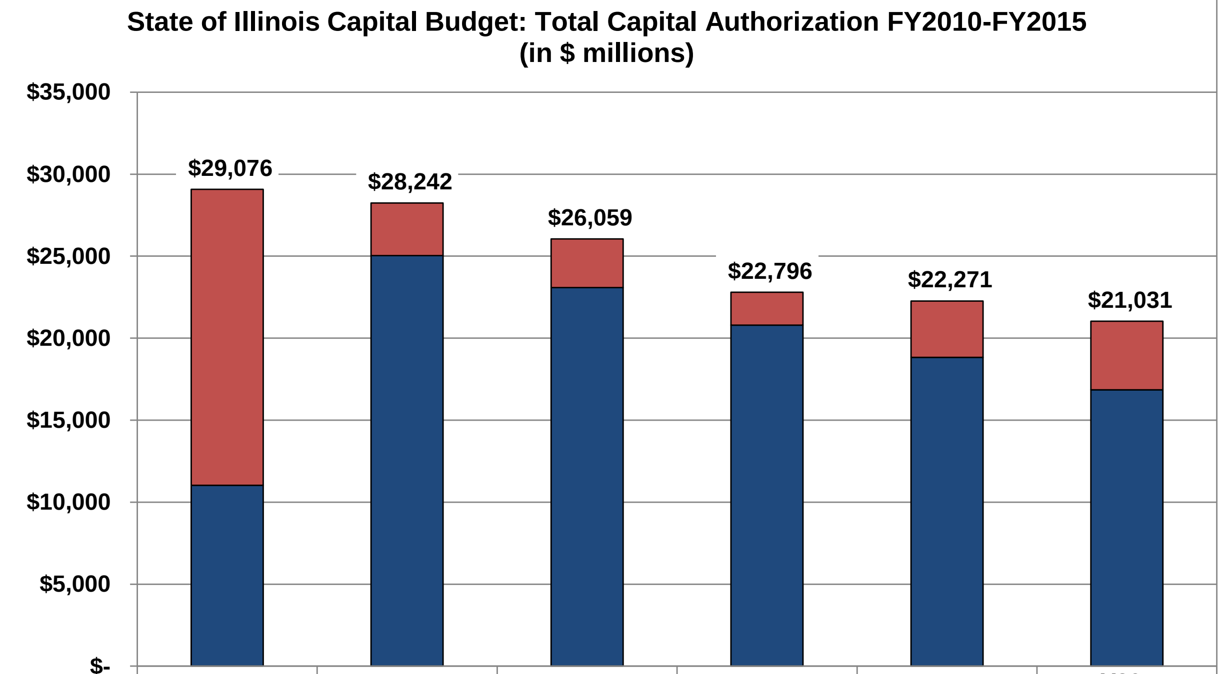


Since FY2010 the total appropriations in the State's capital budget have declined from $29.1 billion to $21.0 billion in FY2015. Due to the addition of new projects and the lack of a comprehensive capital improvement plan to explain the annual prioritization and completion of projects, it is unclear which of the original projects have been completed and how much of the current budget represents additional authorizations passed in the intervening years.

The FY2010 capital budget included $18.0 billion in new projects added to $11.0 billion of reappropriations from previous years. The *Illinois Jobs Now!* program is commonly referred to as a $31.0 billion spending plan due to an additional $3.0 billion of new capital spending approved prior to the FY2010 capital budget in the summer of 2009.

Since FY2010, $15.8 billion in new projects have been approved as part of the annual capital budgets. The largest amount of new projects since FY2010 were approved in FY2015 totaling $4.2 billion. Reappropriations increased to $25.0 billion in FY2011 and then declined over the next five years to a total of $16.9 billion in FY2015.

The following chart shows the total capital appropriations approved by the State of Illinois from FY2010 through FY2015.



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015 Enacted
Total	$29,076	$28,242	$26,059	$22,796	$22,271	$21,031
New	$18,042	$3,205	$2,978	$2,004	$3,434	$4,176
Reappropriation	$11,034	$25,037	$23,081	$20,792	$18,837	$16,854

Source: Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2015*, May 2014, p. 8; Governor's Office of Management and Budget, *Fiscal Year 2015, Enacted Budget by Line Item*. http://www2.illinois.gov/gov/budget/Pages/BudgetBooks.aspx (last visited September 30, 2014)

The State relies heavily on the sale of bonds to fund the capital budget. The original *Illinois Jobs Now!* capital program included approximately $16.0 billion of bond-funded expenditures.[263]

As of December 31, 2013 the State had issued $11.5 billion in bonds to pay for capital projects since the capital program began.[264] A package of dedicated revenue sources was authorized to pay for the additional debt service related to spending on *Illinois Jobs Now!* The new taxes and fees consists of the following:

- Statewide legalization and taxation of video poker;
- Expanded sales tax on candy, sweetened beverages and some hygiene products;
- Leasing a portion of state lottery operations;
- Increased per gallon tax on beer, wine and liquor; and
- Increased license and vehicle fees.

The proceeds from these sources are deposited in the Capital Projects Fund and used to pay for debt service on new capital bonds and some ongoing capital expenses. This is intended to limit the General Funds impact of the additional debt sold to pay for the new capital budget.

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[263] Commission on Government Forecasting and Accountability, *FY2015 Capital Plan Analysis*, May 2014, p. 3.
[264] For more details on the State's total debt burden and annual debt service costs see page 52 of this report.

However, the taxes and fees have yet to produce the funding levels projected when *Illinois Jobs Now!* was originally approved. In FY2014 revenues earned in the Capital Projects Fund totaled $734.0 million and are projected to total $765.6 million in FY2015. The legislative projections provided when the spending was approved in FY2010 anticipated $943 million to $1.2 billion in new revenues beginning in FY2012.

The following table shows the revenues deposited into the Capital Projects Fund from FY2010 through FY2014 and the estimated revenues for FY2015 compared to the original legislative projections of annual revenue by funding source.

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

Source	Original Projections	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015 (est)
Video Poker Tax*	$288 - $534	$ -	$ -	$ -	$ 58.0	$ 114.4	$ 167.6
Lottery Fund	$ 150	$ 32.9	$ 54.1	$ 65.2	$ 135.0	$ 145.0	$ 115.0
Sales Tax	$ 65	$ 39.0	$ 52.0	$ 52.7	$ 54.0	$ 55.0	$ 54.0
Liquor Tax	$ 108	$ 77.6	$ 105.2	$ 114.8	$ 115.1	$ 115.0	$ 119.0
Vehicle Related	$ 332	$ 117.7	$ 294.6	$ 299.7	$ 264.9	$ 304.1	$ 310.0
Other	$ -	$ 0.3	$ -	$ 0.1	$ 0.4	$ 0.4	$ -
Total	**$943 - $1,189**	**$ 267.5**	**$ 505.9**	**$ 532.5**	**$ 627.3**	**$ 734.0**	**$ 765.6**

*FY2013 includes one-time video poker operator fees totaling $33.5 million.

Source: Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2015* , May 2014, pp.10-11; Illinois Comptroller, *Online Revenue Query by Fund: Capital Projects Fund,* www.ioc.state.il.us (last visited on September 30, 2014).

The largest shortfall in revenues is related to the delay in implementing and taxing legalized video gaming, which was the largest single source of revenues in the approved funding package. Due to administrative delays, the first machines were not put into service until October 2012. Fiscal year 2013 was the first year that the capital budget received revenue from the 30% tax on video gaming. Under to the law establishing legalized video poker, five-sixths of the tax revenues generated are used for capital project funding and the remainder given to local governments to pay for adverse social effects of gaming.[265]

The estimated FY2015 video gaming revenue totaling $167.6 million is well below the projection of $288 million to $534 million annually. This is largely due to the ability of local governments to opt out of video gaming or to continue existing local bans on the machines.

According to a report from the Commission on Government Forecasting and Accountability, 48.1% of the Illinois population lives in communities where video gaming is illegal. Chicago, where video gaming remains prohibited, represents 21.0% of the State's population.[266] However, according to data from the State Gaming Board, the number of residents living in communities where video gaming is banned is on the decline and dropped from 63.3% to 48.1% in 2014.

Although video gaming revenue accounts for the largest shortfall in capital funding, as shown in the table above, all other sources of capital projects revenue except liquor taxes continue to fall short.

[265] Public Act 96-0034, enacted July 13, 2009.
[266] Commission on Government Forecasting and Accountability, *FY2015 Capital Plan Analysis*, May 2014, p. 11.

Despite the lower amounts, the total revenues in the Capital Projects Funds for FY2014 exceeded total corresponding debt service related to the new bonds issued under the *Illinois Jobs Now!* authorization. However, due to a required annual statutory transfer of $245.2 million from the Capital Projects Fund to the State's General Funds, which was included in the original capital revenue authorization, a shortfall existed in the Capital Projects Fund.[267] State expenditures due from the Capital Projects Fund totaled $846.9 million, including the transfer to General Funds, compared to revenue of $734.0 million.[268]

When the Capital Projects Fund does not have adequate revenue to cover all of the debt service owed on the new bonds sold since FY2010, the State may use resources from the Road Fund or the General Funds to make up the difference. However, these additional debt service costs are repaid by the Capital Projects Fund in the subsequent year after a shortfalls occur.

The State used payments from the General Funds to pay for the additional debt service cost in FY2014 not covered by the revenues in the Capital Projects Fund. Although the General Funds budget received a transfer-in totaling $245.2 million from the Capital Projects Fund in FY2014, the General Funds were used to cover $173.5 million in debt service that exceeded capital revenue sources. This creates a net benefit of $71.7 million in additional General Funds resources.

In FY2015 as revenues to the Capital Projects Fund are received the State anticipates it will repay the General Funds for additional debt service costs covered in FY2014. However, in FY2015 the State anticipates the General Funds will be used to cover an additional $288.5 million shortfall in debt service owed by the Capital Projects Fund.[269] This creates an estimated net loss of $43.3 million after accounting for the $245.2 million statutory transfer in FY2015 from the Capital Projects Fund to the General Funds.

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[267] Public Act 96-0034, enacted on July 19, 2009.
[268] Illinois Comptroller, *Online Expenditure Inquiry by Fund, Capital Projects Fund*, www.ioc.state.il.us. (Last visited September 30, 2014)
[269] Communication between the Civic Federation and the Governor's Office of Management and Budget, August 29, 2014.

APPENDIX A: BUDGET BILLS AND RESOLUTIONS

The following tables include information on major budget-related resolutions and legislation for FY2015.

State of Illinois FY2015 Budget Resolutions			
		Date Adopted	
Resolution	Description	House	Senate
House Joint Resolution 80	FY2015 revenue estimates	February 25, 2014	March 6, 2014
House Joint Resolution 100	Revised FY2015 revenue estimates	March 29, 2014	March 30, 2014

Source: 98th Illinois General Assembly website at http://www.ilga.gov/legislation/default.asp.

State of Illinois FY2015 Budget-Related Legislation			
Bill	Description	Public Act	Date Signed (2014)
Senate Bill 220	Budget implementation bill (authorizes fund transfers, sets Income Tax Refund Fund rates;authorizes FY2015 deposit into State Pensions Fund from Unclaimed Property Fund)	98-0674	June 30
Senate Bill 274	Budget implementation bill (authorizes interfund borrowing, provides continuing appropriation for legislative salaries, mandates study of rainy day funding)	98-0682	June 30
Senate Bill 352	Reinstatement of Amazon tax	98-1089	August 26
Senate Bill 741	Comprehensive Medicaid changes	98-0651	June 16
Senate Bill 1227	Delay of Governor's budget address	98-0626	February 5
Senate Bill 2612	Task force to study Illinois' sales tax system	98-1028	August 26
Senate Bill 3224	Expanded authority to issue bonds	98-0781	July 22
House Bill 961	Prompt payments to local governments	98-1052	August 26
House Bill 2747	Grant reforms	98-0706	July 16
House Bill 3793*	Capital reappropriations (includes General Funds appropriations for back wages owed to union members, grant to build new school in Chicago and contribution to Chicago public schools pension fund)	98-0675	June 30
House Bill 3794	Capital appropriations for roads	98-0780	July 22
House Bill 3816	Advisory referendum on millionaire's tax	98-0794	July 29
House Bill 6060	Supplemental appropriations for FY2014	98-0642	June 9
House Bill 6093	Elementary and secondary education appropriations	98-0677	June 30
House Bill 6094	Higher education appropriations	98-0678	June 30
House Bill 6095	General services appropriations	98-0679	June 30
House Bill 6096	Human services, pension and group insurance appropriations	98-0680	June 30
House Bill 6097	Public safety appropriations	98-0681	June 30

*The Governor vetoed one line of HB3793, eliminating $250 million of appropriations from Other State Funds.

Source: 98th Illinois General Assembly website at http://www.ilga.gov/legislation/default.asp.

APPENDIX B: PENSION CONTRIBUTION RATIO

This appendix provides data on General Funds pension contributions and State-Source General Funds revenues. The information was used to make the chart on page 31 of this report.

State of Illinois General Funds Pension Contributions and State-Source General Funds Revenues (in $ millions)			
	Pension Contributions	**Revenues**	**Pension Contributions as % of Revenues**
FY1996	$ 513	$ 14,598	3.5%
FY2002	$ 1,252	$ 19,121	6.5%
FY2008	$ 1,607	$ 24,845	6.5%
FY2009	$ 2,239	$ 22,577	9.9%
FY2010*	$ 3,466	$ 21,445	16.2%
FY2011*	$ 3,680	$ 24,778	14.9%
FY2012	$ 4,135	$ 29,939	13.8%
FY2013	$ 5,107	$ 32,208	15.9%
FY2014	$ 5,989	$ 32,865	18.2%
FY2015	$ 6,046	$ 30,618	19.7%

*Pension contributions in FY2010 and FY2011 were made through issuance of General Obligation bonds.

Source: Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2013* , pp. 119-123; State of Illinois, General Obligation Bonds, Series of May 2014, *Supplement to the Official Statement* , July 18, 2014, Table 1;

APPENDIX C: PENSION CONTRIBUTIONS COMPARISION

This appendix provides data on projected total State pension contributions under Public Act 88-0593, which was enacted in August 1994, and under Public Act 98-0599, enacted in December 2013. The implementation of the new law has been blocked by legal challenges. In the table and the chart on page 33 of this report, it is assumed that the new law takes effect in FY2016.

Total contributions are from both General Funds and Other State Funds. The data, from the Commission on Government Forecasting and Accountability (COGFA), cover the Teachers', Employees' and State Universities Retirement Systems, the largest State pension funds. The Judges' Retirement System is not affected by the new law. The new law applies to the General Assembly Retirement System, but the COGFA report did not include that system. The General Assembly Fund is relatively small, with total State contributions of $15.8 million in FY2015.

State of Illinois Projected Total Pension Contributions: Current Law and Public Act 98-0599 (in $ millions)*

Fiscal Year	Current Law	Public Act 98-0599	Fiscal Year	Current Law	Public Act 98-0599
FY2014	$ 6,606	$ 6,606	FY2030	$ 10,645	$ 7,909
FY2015	$ 6,584	$ 6,584	FY2031	$ 10,965	$ 8,140
FY2016	$ 6,760	$ 5,477	FY2032	$ 11,307	$ 8,364
FY2017	$ 6,998	$ 5,609	FY2033	$ 11,674	$ 8,595
FY2018	$ 7,206	$ 5,731	FY2034	$ 12,602	$ 8,822
FY2019	$ 7,457	$ 5,871	FY2035	$ 12,926	$ 9,056
FY2020	$ 7,695	$ 6,024	FY2036	$ 13,263	$ 9,283
FY2021	$ 7,949	$ 6,182	FY2037	$ 13,590	$ 8,353
FY2022	$ 8,214	$ 6,347	FY2038	$ 13,913	$ 8,079
FY2023	$ 8,490	$ 6,518	FY2039	$ 14,227	$ 2,349
FY2024	$ 8,762	$ 6,689	FY2040	$ 14,532	$ 622
FY2025	$ 9,044	$ 6,876	FY2041	$ 14,836	$ 636
FY2026	$ 9,360	$ 7,062	FY2042	$ 15,141	$ 650
FY2027	$ 9,687	$ 7,267	FY2043	$ 15,451	$ 664
FY2028	$ 10,004	$ 7,471	FY2044	$ 15,771	$ 678
FY2029	$ 10,333	$ 7,689	FY2045	$ 16,101	$ 692

*Includes contributions from General Funds and Other State Funds to Teachers', Employees' and Universities Retirement Systems.

Source: Commission on Government Forecasting and Accountability, *Segal Actuarial Cost Study on P.A. 98-0599 (SB1)* , March 26, 2014, Exhibits 1-6.

APPENDIX D: TOTAL DEBT SERVICE

The following chart shows all outstanding General Obligation and Build Illinois Bond debt service owed by the State of Illinois as of April 23, 2014.

State of Illinois Total Debt Service: GO Bonds and Build Illinois Bonds Bonds Principal and Interest (in $ millions)

Fiscal Year	Capital GO	Pension GO	Build Illinois	Total Debt Service
2014	$ 1,497.9	$ 1,634.1	$ 351.7	**$ 3,483.7**
2015	$ 1,682.3	$ 1,797.9	$ 370.0	**$ 3,850.1**
2016	$ 1,635.6	$ 1,356.5	$ 353.7	**$ 3,345.7**
2017	$ 1,561.2	$ 1,647.3	$ 329.7	**$ 3,538.3**
2018	$ 1,486.5	$ 1,618.6	$ 305.9	**$ 3,411.1**
2019	$ 1,409.9	$ 1,586.1	$ 284.3	**$ 3,280.3**
2020	$ 1,347.7	$ 674.6	$ 260.0	**$ 2,282.2**
2021	$ 1,285.1	$ 713.4	$ 221.6	**$ 2,220.1**
2022	$ 1,210.7	$ 749.8	$ 226.0	**$ 2,186.5**
2023	$ 1,167.2	$ 783.7	$ 208.0	**$ 2,158.9**
2024	$ 1,080.2	$ 840.2	$ 194.6	**$ 2,114.9**
2025	$ 977.9	$ 892.2	$ 187.2	**$ 2,057.3**
2026	$ 951.7	$ 915.4	$ 179.2	**$ 2,046.3**
2027	$ 827.7	$ 936.1	$ 151.6	**$ 1,915.4**
2028	$ 804.6	$ 979.2	$ 124.9	**$ 1,908.6**
2029	$ 773.0	$ 1,018.5	$ 120.7	**$ 1,912.3**
2030	$ 687.6	$ 1,079.0	$ 108.5	**$ 1,875.1**
2031	$ 615.6	$ 1,134.4	$ 109.8	**$ 1,859.8**
2032	$ 531.5	$ 1,159.7	$ 99.8	**$ 1,790.9**
2033	$ 507.5	$ 1,156.1	$ 96.1	**$ 1,759.7**
2034	$ 515.6	$ -	$ 92.3	**$ 607.9**
2035	$ 405.3	$ -	$ 66.6	**$ 471.9**
2036	$ 287.1	$ -	$ 64.0	**$ 351.2**
2037	$ 226.9	$ -	$ 31.3	**$ 258.1**
2038	$ 161.2	$ -	$ 17.5	**$ 178.8**
2039	$ 121.4	$ -		**$ 121.4**
Total	**$ 23,759.0**	**$ 22,672.7**	**$ 4,554.8**	**$ 50,986.5**

Source: State of Illinois General Obligation Bonds, Series May 2014, *Official Statement* , April 25, 2014, p. 53, State of Illinois, Build Illinois Bonds, Series March 2014, *Official Statement* , March 11, 2014, p. 20.