The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

State of Illinois Enacted Budget FY2012:

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

September 26, 2011

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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 2012, which began on July 1, 2011 and ends on June 30, 2012. Despite a major income tax increase implemented in January 2011, the total General Funds deficit is projected to grow in FY2012 and the State continues to deal with its financial problems by delaying payments to vendors and local governments.

Although the FY2012 budget includes lower appropriations for state agencies, these reductions are largely offset by higher pension contributions and debt repayment costs. The operating gap—the shortfall between revenues and expenditures—would be even larger if the FY2012 budget did not significantly underfund Medicaid costs, shifting those expenses into the next year. In addition, the State boosts revenues available for general operations by not setting aside enough income tax revenues to pay down a backlog of tax refunds owed to businesses.

The main findings of the analysis are the following:

Deficit

- The FY2012 enacted budget includes a General Funds operating deficit[1] of $454 million, which is down from $3.9 billion in FY2011 largely due to the income tax increase enacted in January 2011;
- Although the FY2012 operating shortfall is $454 million, projected Medicaid costs totaling as much as $1.7 billion are not covered by the budgeted appropriations;
- General Funds revenues would be reduced by approximately $476.1 million if the State used the statutory formula to set aside enough income tax revenue to eliminate its backlog of unpaid refunds owed to businesses; and
- The total General Funds deficit, consisting of the operating deficit and the accumulated deficit from prior years, is expected to increase from $4.6 billion at the end of FY2011 to $5.0 billion at the end of FY2012.

Unpaid Bills

- The General Funds backlog of unpaid bills is expected to total $5.5 billion at the end of FY2012;
- The backlog of business tax refunds and Medicaid and employee health insurance bills outside of General Funds would cost the State an additional $2.8 billion to repay;
- The total projected payment backlog at the end of FY2012 is approximately $8.3 billion; and
- Due to cash flow problems, the State extended the FY2011 lapse period—the period of time during which it can use FY2012 revenues to pay off FY2011 bills—from two months to six months, as it did for the previous year.

[1] State of Illinois, *Fiscal Year 2012 Budget Review*, Presentation to Rating Agencies, August 10, 2011. 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 and discretion. 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 funded with federal revenues. The annual operating deficit is the shortfall between revenues and expenditures.

Revenues

- FY2012 General Funds revenues were originally projected to total $33.2 billion but could grow by as much as $724 million to $33.9 billion based on updated projections;
- After the personal income tax rate was raised from 3.0% to 5.0% and corporate income tax rate from 4.8% to 7.0% halfway through FY2011, General Funds income tax revenues increased by $2.9 billion from FY2010 to FY2011 and are projected to increase by an additional $4.2 billion from FY2011 to FY2012; and
- The FY2012 enacted budget does not set aside enough income tax revenues to pay down the backlog of unpaid business tax refunds, which is expected to drop slightly from $645.5 million in FY2011 to $594.2 million in FY2012.

Appropriations and Expenditures

- Total expenditures from General Funds, including appropriations, debt service and legislatively required transfers, decline 1% from $33.9 billion in FY2011 to $33.6 billion in FY2012 but are above the General Assembly's targeted level of $33.2 billion;
- Total appropriations decline 1.7% from $29.7 billion in FY2011 to $29.2 billion in FY2012. While agency appropriations decline by 3.2% from $25.8 billion to $25.0 billion, pension contributions increase by 7.9% from $3.9 billion to $4.2 billion;
- For the first time since FY2009, the State plans to make its statutorily required pension contributions without borrowing. Total pension-related expenses of $5.8 billion, including debt service on pension bonds, represent 17.4% of total General Funds expenditures;
- The FY2012 budget does not cover salary costs for state employees in some agencies, even before scheduled union raises, so the State must make additional appropriations, reduce wages or lay off workers before the end of the fiscal year; and
- Despite a decline in agency appropriations, total expenditures from General Funds have increased 10.6% from $30.4 billion in FY2008 to $33.6 billion in FY2012 due to increases in pension contributions and debt service on pension bonds.

Debt Trends

- The state borrowed a total of $12.1 billion to pay for General Funds operations between FY2009 and FY2011, but the FY2012 budget does not include additional borrowing to pay for ongoing operational expenses; and
- Due to pension borrowing and increased borrowing to support the State's ongoing capital plan, the State's debt burden now totals $30.2 billion, a 222.1% increase since FY2002 and 44.0% increase since FY2009.

Capital Budget

- The FY2012 enacted capital budget includes reauthorization of $22.8 billion in previously approved projects and $2.2 billion in new projects, bringing the total capital budget to $25.1 billion.

Budget Process

- The General Assembly played an active role in the budget process for FY2012, rejecting the Governor's unbalanced operating budget and setting a spending target based on revenue projections; and
- The General Assembly's budget plan included General Funds expenditures $1.5 billion lower than those proposed by the Governor but did not adequately fund Medicaid costs.

BUDGET TIMELINE

The State of Illinois faced significant challenges in creating a budget for Fiscal Year 2012, which began on July 1, 2011. Years of poor fiscal management followed by a national economic recession left the State with a mountain of unpaid bills, huge unfunded pension liabilities and escalating debt.[2] The loss of federal stimulus funds at the end of FY2011 represented another budgetary obstacle.

At the same time, the FY2012 budget picture benefited from several developments. Major income tax increase legislation that included annual spending limits was enacted in January 2011.[3] Legislation to reform the State's Medicaid program was signed into law in January 2011, although sizeable savings were not expected to be realized for several years.[4] In addition, the Illinois General Assembly participated actively in the formulation of the FY2012 budget, a marked departure from its practice over the prior two decades.

Governor's FY2012 Budget Recommendation—February 16, 2011

On February 16, 2011, Governor Pat Quinn presented his recommended operating budget for FY2012.[5] The FY2012 proposal also presented a revised budget plan for FY2011.

For FY2012 the $52.7 billion recommended budget included General Funds appropriations of $31.3 billion, consisting of $26.7 billion for agency appropriations and $4.6 billion for pension contributions. 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 and discretion. 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 funded with federal revenues.

Under the Governor's proposed FY2012 budget, General Funds agency appropriations increased by $1.1 billion from FY2011, with $2.1 billion in departmental increases offsetting $1.0 billion in departmental reductions. The largest proposed increase was for employee health insurance, which was underfunded in FY2011. The largest proposed decrease was for the Department of Human Services, including significant reductions in community services for the mentally ill and developmentally disabled and in addiction treatment services. The Governor also proposed major rate reductions for Medicaid service providers to rein in cost increases.

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[2] The Pew Center on the States, *Beyond California: States in Fiscal Peril*, November 2009, pp. 47-49, at http://downloads.pewcenteronthestates.org/BeyondCalifornia.pdf (last visited on September 7, 2011). This report cited Illinois' "lack of fiscal discipline to balance its state budget" and its use of short-term approaches to filling the budget gap, such as delaying the payment of bills and skimping on pension payments.

[3] Public Act 96-1496.

[4] Public Act 96-1501.

[5] Illinois State FY2012 Budget, http://www.state.il.us/budget/FY2012/FY12_Operating_Budget.pdf (last visited on July 13, 2011). For more information, see The Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2012 Recommended Operating and Capital Budget: Analysis and Recommendations*, May 9, 2011, http://www.civicfed.org/iifs/publications/state-illinois-fy2012-recommended-operating-and-capital-budgets-analysis-and-recom (last visited on July 13, 2011).

The Governor proposed total spending from General Funds of $35.4 billion. Spending from General Funds includes appropriations as well as statutory transfers out of General Funds, consisting of debt service payments and legislatively required transfers to other funds for specific purposes. The January 2011 income tax increase legislation established General Funds spending limits for the next four years, with the FY2012 spending cap set at $36.8 billion.[6]

Total revenues in the Governor's FY2012 proposed budget were estimated at $33.9 billion—well below both proposed total spending and the statutory spending limit. The revenue estimate was based on the assumption that the State would enact legislation to decouple Illinois from a federal tax law change on bonus depreciation, allowing companies to write off investments more quickly in 2011. The assumption increased state revenues by between $520 million and $615 million.[7] In addition, the Governor's budget proposal increased revenues by roughly $970 million by setting aside an inadequate amount of income tax revenues to pay down a backlog of income tax refunds owed to businesses. The Governor proposed reducing the percentage of business income tax revenues diverted to pay refunds to 12.5% in FY2012 from 17.5% in FY2011 and leaving the rate for individual income taxes at 8.75%.[8] Under a long-standing statutory formula, the percentages for FY2012 would have been set at 30.47% for business income taxes and 11.21% for individual income taxes in order to provide enough funding to pay current refunds and pay down the backlog.[9]

The FY2012 budget represented the first full fiscal year of the income tax increase, which took effect on January 1, 2011. The individual income tax rate was raised from 3% to 5% and the corporate income tax rate was raised from 4.8% to 7%.[10] The individual income tax rate declines to 3.75% beginning on January 1, 2015 and to 3.25% on January 1, 2025; the corporate rate falls to 5.25% in 2015 and returns to 4.8% in 2025. The additional revenue from the tax increase allowed the State to make its General Funds pension contributions without borrowing for the first time since FY2009.

Despite the income tax increase and inadequate diversion rates, the Governor's proposed budget showed an initial operating shortfall of $1.45 billion. Governor Quinn recommended that the shortfall be closed through the sale of $8.75 billion in 15-year General Obligation (GO) Restructuring Bonds.[11] The main purpose of the bonds was to eliminate most of the expected $6.4 billion of unpaid General Funds bills at the end of FY2011. The remainder of the proceeds would be used to pay down obligations outside of the General Funds budget, including Medicaid and employee health insurance claims and the backlog of income tax refunds owed to businesses.

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[6] Public Act 96-1496 also established spending limits of $37.6 billion for FY2013, $38.3 billion for FY2014 and $39.1 billion for FY2015.
[7] Illinois State FY2012 Budget, p. 5-15.
[8] Illinois State FY2012 Budget, pp. 5-12 and 5-14.
[9] Estimated statutory percentages were provided to the Civic Federation by the Illinois Department of Revenue on April 27, 2011.
[10] Corporations in Illinois are also subject to a Personal Property Replacement Tax of 2.5%, raising the total corporate income rate to 9.5%.
[11] 97th Illinois General Assembly, Senate Bill 3, introduced January 13, 2011.

The table below summarizes Governor Quinn's General Funds budget plan for FY2012. The table also shows the Governor's budget plan for FY2011, as revised in February 2011 to account for the proposed sale of GO Restructuring Bonds. Preliminary results for FY2011 are significantly different than this version of the FY2011 budget, as explained later in this section.

State of Illinois FY2011 Revised and FY2012 Recommended General Funds Budget Plan (in $ millions)		
	FY2011 Revised Rec.*	**FY2012 Rec.**
Total Operating Resources**	$ 30,613	$ 33,932
Total Expenditures	$ 33,666	$ 35,382
Operating Surplus (Deficit)	**$ (3,053)**	**$ (1,450)**
Borrowing for Operations		
Net Short-Term Borrowing Proceeds	$ (17)	
Pension Bond Proceeds	$ 3,680	$ -
Tobacco Bond Proceeds	$ 1,250	$ -
GO Restructuring Bond Proceeds**	$ 4,000	$ 1,450
Total Borrowing for Operations	$ 8,913	$ 1,450
Operating Surplus (Deficit) After Borrowing	$ 5,860	$ -
Accumulated Deficit From Prior Years	$ (6,314)	$ (454)
Total Surplus (Deficit)	**$ (454)**	**$ (454)**

As of February 2011.

**Proposed.

Source: Illinois State FY2012 Budget, p. 2-13.

The revised FY2011 operating surplus after borrowing—including proceeds from the proposed GO Restructuring Bonds—eliminated all but $454 million of the $6.3 billion accumulated deficit from prior years.

General Assembly Budget Process—March 2011 to June 2011

General Assembly leaders rejected Governor Quinn's proposed FY2012 budget as unbalanced.[12] The House and Senate each developed their own budgets, starting with General Funds revenue estimates of $33.2 billion in the House and $34.3 billion in the Senate.[13] Unlike the Governor's revenue estimate of $33.9 billion, the estimates adopted by the General Assembly did not decrease the percentage of business income tax revenues diverted to pay for tax refunds or assume passage of legislation decoupling Illinois from the federal law on bonus depreciation. The Senate's higher revenue estimate was based on revenue forecasts by the legislature's Commission on Government Forecasting and Accountability.[14] The House adopted a resolution stating that any revenues in excess of the adopted estimate be used to pay unpaid state obligations.[15]

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[12] Christopher Wills, "Quinn: State spending would rise despite cuts," *Daily Chronicle*, February 17, 2011.

[13] 97th Illinois General Assembly, House Resolution 110, adopted on March 3, 2011; 97th Illinois General Assembly, Senate Joint Resolution 29, adopted by Senate on March 17, 2011. See Appendix A for a list of FY2012 budget resolutions adopted by the House and by the Senate.

[14] Commission on Government Forecasting and Accountability, *FY2012 Economic Forecast and Revenue Update and FY2011 Revenue Update*, March 10, 2011, p. 25, http://www.ilga.gov/commission/cgfa2006/Upload/FY12econforecastrevestimate.pdf (last visited on July 19, 2011).

[15] 97th Illinois General Assembly, House Resolution 158, adopted on March 30, 2011.

Each chamber subsequently drafted appropriations bills designed to keep total spending within the projected revenue levels. In a speech on the House floor after the budget bills were passed on May 13, 2011, House Speaker Michael Madigan said that the legislature had not been as heavily involved in the budget process since FY1990.[16] Starting in June 1991, the General Assembly went to a one-bill budget, which led to criticism that all budgetary decisions were made when the Governor and legislative leaders gathered in the Governor's office, the Speaker said.

Based on revenue estimates that were more than $1 billion apart, the House and Senate budgets had significant differences. The Senate plan contained roughly $63 million more in appropriations for education, $885 million more for human services and $21 million more for public safety.[17] The largest difference involved the Medicaid budget.[18] The House budget included $6.92 billion in General Funds appropriations for Medicaid, while the Senate budget included $7.49 billion and the Governor's proposal included $7.45 billion.[19] Although the House budget was roughly $570 million below the Senate budget, the House did not authorize program cuts or the $552 million in rate cuts previously requested by the Governor. Medicaid is an entitlement program, meaning that those who meet eligibility requirements are entitled to specified services. As a result, appropriation cuts only result in spending reductions if action is taken on program eligibility, provider reimbursement rates or benefits.

The House budget also did not fund wage increases included in a four-year contract between the State and its largest union that expires at the end of FY2012.[20] Council 31 of the American Federation of State, County and Municipal Employees (AFSCME) previously agreed to defer some scheduled raises and reduce employee health insurance costs in exchange for a ban on worker layoffs and state facility closures. After the raise deferrals, employees were scheduled to receive increases of 2% on July 1, 2011; 1.25% on January 1, 2012; and 2% on February 1, 2012.

On May 30, 2011 the Senate approved the House budget plan with General Funds appropriations of $29.6 billion, including pension contributions.[21] However, the Senate also added $431 million in operating appropriations for education and human services to a bill authorizing continued spending for capital construction programs in FY2012.[22] When that move failed to win support outside the Senate and the Governor threatened to halt construction projects throughout the State by July 1, the Senate ended its push for extra spending on June 22.[23]

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[16] Comments of Illinois House Speaker Michael Madigan, Illinois Statehouse News video, May 13, 2011, http://www.youtube.com/watch?v=lC4EK9fr_00 (last visited on August 9, 2011)
[17] Jamey Dunn, "Budget was a chamber vs. chamber battle," *Illinois Issues blog*, July 1, 2011.
[18] Figures refer to the Medical Assistance Program budget of the Illinois Department of Healthcare and Family Services. See p. 25 of this report for explanation of the distinction between this program and Medicaid.
[19] Email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, July 11, 2011.
[20] Doug Finke, "State employees will have to choose raises or jobs, lawmakers say," *The State Journal-Register*, May 12, 2011.
[21] Email communication between the Civic Federation and the Governor's Office of Management and Budget, August 12, 2011.
[22] 97th Illinois General Assembly, House Bill 2189, Senate Amendment 1. See Jamey Dunn, "Budget headed to Quinn," *Illinois Issues blog*, May 30, 2011.
[23] Monique Garcia and Ray Long, "Lawmakers vote to cut their pay again," *Chicago Tribune*, June 22, 2011.

The General Assembly took no action on the Governor's borrowing plan. In May 2011 Governor Quinn endorsed the idea of a scaled down, shorter-term bond sale to reduce the backlog of state bills.[24] However, bills incorporating that concept[25] did not win legislative support.[26]

As it did in FY2010, the legislature extended the lapse period for FY2011 from two months to six months.[27] During the lapse period, the previous year's bills can be paid from the current year's revenues; the lapse period extension means that the State's deadline for paying FY2011 bills is December 31, 2011 instead of August 31, 2011.

On May 31, 2011 the General Assembly approved a bill[28] that would establish five more casinos in Illinois, including one in Chicago, and would allow for slot machines at racetracks and at both Chicago airports. Governor Quinn has criticized the bill for allowing an excessive expansion of gambling in the State but has not said whether he will veto it.[29] The bill was put on parliamentary hold by Senate President John Cullerton and has not been sent to the Governor. Potential state revenues from gaming expansion were not included in the FY2012 budget.

Governor's Vetoes and Other Developments—June 2011 to the Present

Governor Quinn signed the FY2012 budget on June 30, 2011, the last day of the previous fiscal year.[30] In signing the budget, the Governor vetoed $376.4 million in specific General Funds appropriations passed by the General Assembly.[31] After the vetoes, enacted General Funds appropriations were $29.2 billion and General Funds spending totaled $33.6 billion.

The Governor vetoed $276.0 million in Medicaid appropriations to hospitals, $89.0 million in school transportation appropriations and $11.3 million in appropriations for regional school superintendents. The Medicaid cuts were intended to prod hospitals to accept a reduction in Medicaid reimbursement rates.[32] If no changes are made to Medicaid rates, eligibility requirements or benefits, the program will be underfunded by roughly $1.7 billion in FY2012 and payments to healthcare providers will be delayed by more than 160 days by the end of the year, according to the Illinois Department of Healthcare and Family Services.

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[24] Tim Landis, "Quinn backs Springfield chamber plan for state short-term borrowing," *The State Journal-Register*, May 3, 2011.
[25] 97th Illinois General Assembly, Senate Bills 342, 343 and 344.
[26] Doug Finke, "Senate rejected borrowing plan," *Olney Daily Mail*, May 29, 2011.
[27] 97th Illinois General Assembly, Senate Bill 2172 (Public Act 97-0075).
[28] 97th Illinois General Assembly, Senate Bill 744.
[29] Dave McKinney, Fran Spielman and Stephen Di Benedetto," Gov. Pat Quinn calls gambling expansion plan 'excessive,'" *Chicago Sun-Times*, July 8, 2011.
[30] See Appendix B for list of major budget bills enacted for FY2012.
[31] Illinois Government News Service, "Governor Quinn Takes Budget Action," *news release*, June 30, 2011, http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=2&RecNum=9516 (last visited on July 20, 2011).
[32] Governor's Office of Management and Budget, FY12 Budget Veto Descriptions, http://www2.illinois.gov/gov/Documents/Budget/Reduction%20Veto%20Sheet%20FY2012.pdf (last visited on July 20, 2011).

The Governor vetoed specific appropriations by reducing appropriation amounts (reduction veto) and eliminating line items (line item veto). During the fall legislative session scheduled to begin on October 25, 2011, the General Assembly may override a reduction veto by a majority vote and a line-item veto by a three-fifths vote.[33]

The table below summarizes the FY2012 enacted General Funds budget plan. The table also shows preliminary results for FY2011. Preliminary results for FY2011 do not include the GO Restructuring Bonds, which were proposed but not approved by the General Assembly.

Summary of State of Illinois General Funds Budget Plan: FY2011-FY2012 (in $ millions)

	FY2011 Preliminary Results	FY2012 Enacted
Total Revenues	$ 29,991	$ 33,124
Total Expenditures	$ 33,902	$ 33,578
Operating Surplus (Deficit)	**$ (3,911)**	**$ (454)**
Borrowing for Operations		
Interfund Borrowings	$ 496	$ -
Pension Bond Proceeds	$ 3,680	$ -
Tobacco Bond Proceeds	$ 1,250	$ -
Total Borrowing for Operations	$ 5,426	$ -
Operating Surplus (Deficit) After Borrowing	$ 1,515	$ (454)
Accumulated Deficit From Prior Years	$ (6,094)	$ (4,579)
Total Surplus (Deficit)	**$ (4,579)**	**$ (5,033)**

Source: State of Illinois, *Fiscal Year 2012 Budget Review,* Presentation to Rating Agencies, August 10, 2011.

After signing the FY2012 budget, Governor Quinn announced that he would cancel the 2% wage increase for AFSCME workers scheduled to take effect on July 1, 2011 due to inadequate appropriations by the General Assembly.[34] The Governor's decision led to a legal dispute with AFSCME.[35] On September 8, 2011, a federal judge in Springfield dismissed AFSCME's complaint against the State; the union has said it will appeal the decision.[36]

On September 9, Governor Quinn said he is taking steps to close seven state facilities and lay off 1,938 workers as part of an effort to close a $314 million funding shortfall for some agencies in the budget passed by the General Assembly.[37] At the same time, the Governor urged the legislature to uphold his veto of $376 million in General Funds appropriations and pass supplemental appropriations to avert the closings and layoffs.

[33] Illinois Constitution, Article IV, Section 9(d).
[34] Doug Finke, "Quinn cancels $75 million in state employee pay raises," *The State Journal-Register*, July 1, 2011.
[35] See p. 28 of this report for more information on the proposal to cancel union raises.
[36] Council 31 AFSCME, "Judge Dismissed Pay Lawsuit; Union Will Appeal," September 8, 2011, http://www.afscme31.org/news?id=0253 (last visited on September 9, 2011).
[37] Office of the Governor, Fact Sheet – FY12 Budget Management, September 8, 2011, http://statehousemedia.com/illinois/September/gov_firing.pdf (last visited on September 9, 2011).

GENERAL FUNDS REVENUES

The General Funds budget enacted for FY2012 was based on revenues totaling $33.2 billion. The projected total was passed in a resolution by the Illinois House of Representatives on March 8, 2011, prior to the allocation of resources for FY2012 in the House Appropriations Committees.[38] Although the Senate passed competing General Funds revenues projections[39] and separate appropriations bills, the House bills were eventually approved by both chambers and sent to the Governor as the spending plan for FY2012.

This marked the first time in recent history that committee deliberations and legislative action regarding the available General Funds revenues for the coming fiscal year preceded the allocation of appropriations in the State's annual budget process.

General Funds revenues are the source of funding that the Governor and General Assembly have the most discretion over during the annual appropriation process.[40] The remaining revenues are designated for Other State Funds or Federal Funds and are earmarked for specific purposes outside of the General Funds budget. The FY2012 All Funds Budget recommended by the Governor in February 2011 was based on revenues totaling $62.7 billion.[41] Updated All Funds revenue projections are not yet available but total appropriations, which are closely based on expected revenues, are discussed in the Appropriations and Expenditures section of this report on page 22

This section discusses preliminary year-end results for FY2011 General Funds revenues, enacted totals for FY2012 and recent revenue trends.

The majority of General Funds revenues that are used to pay for the State's regular operations come from personal income taxes, corporate income taxes and sales taxes. These sources made up 66.4% of total General Funds revenues in FY2011 and total 71.0% of the projected revenues for FY2012.[42] Both the income tax and sales tax are economically sensitive and declined dramatically during the recession that began in December 2007 and lasted until June 2009.[43] Total General Funds revenues declined by $2.3 billion from $29.7 billion in FY2008 to $27.4 billion in FY2010.[44] State sources of General Funds revenues fared even worse than total General Funds revenues, which were bolstered by increased federal aid to states through the American Recovery and Reinvestment Act of 2009 (ARRA).[45] State-source revenues declined by a total of $3.4 billion from $24.9 billion in FY2008 to $21.5 billion FY2010, a loss of 13.7%. Over the same period, primarily due to ARRA funding for education and Medicaid, the State received a total of $3.5 billion in General Fund resources from federal sources compared to an aggregate drop of $6.0 billion in state-source revenues.

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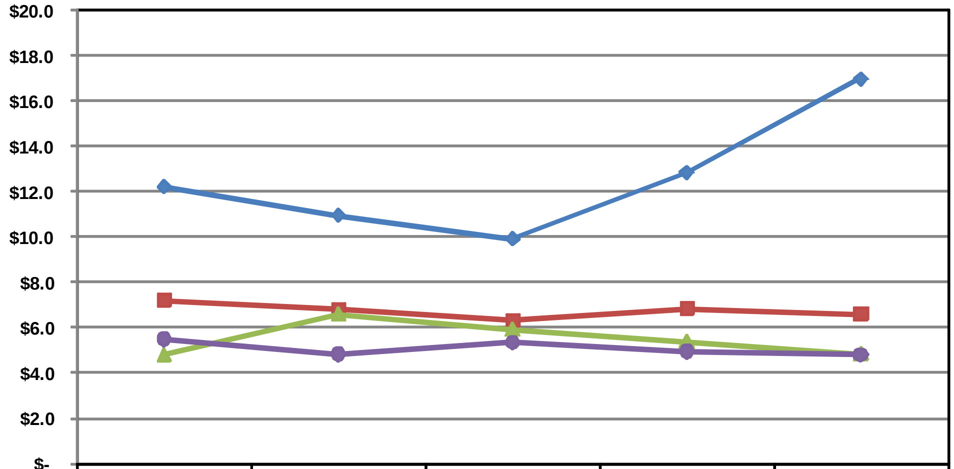
[38] 97th Illinois General Assembly, House Resolution 110.
[39] 97th Illinois General Assembly, Senate Joint Resolution 29.
[40] Illinois State FY2012 Budget, p. 2-35.
[41] Illinois State FY2012 Budget, p. 2-34.
[42] Illinois State FY2012 Budget, p. 5-8.
[43] National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," September 20, 2010.
[44] Illinois State Budgets: FY2009- FY2012.
[45] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, p. 24.

The following chart shows total General Funds revenues by source from FY2008 through FY2011 and the enacted projections for FY2012.

State of Illinois General Funds Revenues by Source: FY2008-FY2012 (in $ billions)



	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Preliminary Results	FY2012 Enacted Projections
Income Taxes (net)	$12.2	$10.9	$9.9	$12.8	$17.0
Sales Taxes	$7.2	$6.8	$6.3	$6.8	$6.6
Federal Receipts	$4.8	$6.6	$5.9	$5.4	$4.8
Other Revenues	$5.5	$4.8	$5.3	$4.9	$4.8
Total	$29.7	$29.1	$27.4	$30.0	$33.2

Source: Illinois State FY2012 Budget, p. 2-35; Illinois State FY2011 Budget, p. 2-29; Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, p. 30, 97th Illinois General Assembly, House Resolution 110.

Although revenues began to stabilize and show marginal growth early in FY2011, overall revenue projections remained weak when the State enacted its FY2012 budget on June 30, 2011. Revenues in FY2011 were originally projected to increase by approximately $268 million, or just less than 1.0%, from $27.4 billion in FY2010 to $27.7 billion before the State enacted an income tax increase in January 2011, halfway through the fiscal year.

FY2011 Preliminary Results

On January 13, 2011, the State enacted temporary increases in both the personal and corporate income tax rates, which was the first significant action taken to counteract the loss of revenue and curb the State's ongoing financial crisis.[46] The corporate income tax rate was increased from 4.8% to 7.0% and the personal income tax rate was increased from 3.0% to 5.0%. The increased rates only applied to the second half of the State's fiscal year, which begins on July 1. The income tax legislation also raised corporate income tax revenues by suspending the net operating loss carryover deduction for corporations (but not for Subchapter S corporations) through FY2014.[47] The net operating loss deduction allows businesses to reduce their current tax liability by reducing their income by losses suffered in prior years.

Due to these changes, total FY2011 General Funds revenues from income taxes were projected to increase by $2.9 billion, or 28.3%, from $10.3 billion at the time the budget was enacted to a revised estimate of $13.2 billion. Preliminary year-end estimates show total FY2011 income tax revenues just below that estimate at $13.1 billion.

The increase in total FY2011 General Funds revenues was not only affected by the income tax rate changes but also by an increase in revenues received through the State's tax amnesty program.[48] The General Assembly approved the tax amnesty program to help boost revenues as part of the FY2011 enacted budget. The legislation allowed delinquent taxes owed to the State from periods between June 30, 2002 and June 30, 2009 to be paid by residents and businesses without penalty. To take advantage of the program, these past due bills had to be paid between October 1, 2010 and November 8, 2010. Initially the Governor's Office of Management and Budget (GOMB) projected new General Funds revenue generated by the amnesty program would total $250 million for FY2011. Total revenues from the program in FY2011 exceeded these expectations by $184 million, or 73.4%, for a total of $434 million. Total General Funds revenue collected from the amnesty period included: $214.8 million from the corporate income tax; $163.8 million in sales taxes; $36.5 million from the personal income tax; and $18.3 million from public utility taxes. Total revenues for these categories are presented net of the amnesty proceeds in this section to show results from normal collections that are comparable to enacted projections and actual totals from previous fiscal years.

After subtracting out the revenues in FY2011 attributable to the tax amnesty program, total FY2011 personal income tax revenues, net of refunds, increase by $2.5 billion, or 28.8%, from the enacted budget estimate of $8.7 billion to the preliminary year-end results of $11.2 billion.

Despite the increase in the corporate income tax rate for the second half of the fiscal year, after accounting for amounts attributable to the amnesty, corporate income tax receipts remained nearly flat at $1.6 billion in FY2010 and FY2011. The U.S. Congress enacted a change to federal corporate tax depreciation provisions at the end of calendar year 2010 that offset much of the expected growth in the State corporate income tax revenues in FY2011.[49] Known as bonus depreciation, the federal rule allows businesses to take an upfront deduction for the cost of

[46] Public Act 96-1496.
[47] Public Act 96-1496, § 207.
[48] Public Act 96-1435.
[49] Illinois State FY2012 Budget, p. 5-15.

capital investments in machinery or equipment from their annual taxable income. The amount of corporate income that is taxable in Illinois conforms to the federal tax code, so the State also experiences reduced taxable corporate income associated with the change in this rule. The bonus depreciation benefit for corporations, also called expensing, was included as part of a package of tax cuts added to a bill to extend unemployment payments for individuals whose benefits were set to expire at the end of 2010.[50] The change allows businesses to deduct 100% of the cost of equipment and machinery purchased and put into operation between September 8, 2010 and December 31, 2011 from their taxable income. In the 2012 calendar year, the law allows businesses to continue to reduce their taxable income but only by 50% of the cost of capital equipment purchases. Normally businesses must spread out depreciation of their capital investments incrementally over the entire useable life of the equipment. Bonus depreciation was previously enacted on the federal level in 2003 for 30% of the cost of capital equipment investments and in 2005 and subsequent years for 50% of the cost.

In the past Illinois enacted legislation decoupling from the 50% bonus depreciation. However, as constructed the statute does not apply to the 100% bonus depreciation because it specifically instructs only corporations that have taken 50% bonus depreciation deduction to add the amounts back into their taxable income for their Illinois tax filing.[51] Although the Governor's recommended budget proposed decoupling from the 100% bonus depreciation, the legislature did not take action on the change as part of the FY2012 budget. The Governor's office projected that not decoupling from this federal provision would reduce corporate tax refunds by between $50 million and $115 million in FY2011 and between $520 million and $615 million in FY2012.[52]

The State also has a sizable backlog of business income tax refunds that may have altered the tax payment practices of businesses and reduced FY2011 revenues.[53]

In all, despite the 45.28% increase in the corporate income tax rate for the second half of FY2011, new revenues totaled only $66 million, a 4.2% increase over the amounts projected prior to the tax increase.

Total state-source General Funds revenue increased by $3.2 billion from the estimate of $21.4 billion when the FY2011 budget was enacted to $24.6 billion at the end of the year. The majority of the additional funds came from the increase in personal income tax receipts of $2.5 billion. However, General Funds resources from the federal government declined significantly in FY2011 from $6.2 billion projected when the budget was enacted to $5.4 billion, a loss of $721 million, or 11.6%. Total General Funds revenues at the end of the year increased to $30.0 billion from the original estimate of $27.7 billion when the budget was enacted. The total net gain of $2.3 billion during FY2011 amounts to an 8.5% increase in General Funds revenues.

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[50] Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, House Resolution 4853, 111th Congress (2009-2010).
[51] Public Act 96-932.
[52] Illinois State FY2012 Budget, p. 5-15.
[53] For more information see the discussion of the Income Tax Refund Fund on page 19 of this report.

The following table shows total FY2011 General Funds revenues projected when the budget was enacted compared to revised totals submitted in the Governor's recommended budget and the preliminary year-end results.

State of Illinois FY2011 General Funds Revenue: Enacted, Revised and Preliminary Results (in $ millions)					
	FY2011 Enacted	FY2011 Mid-Year Revised	FY2011 Preliminary Results	$ Change	% Change
Base Revenues					
State Sources					
Income Taxes (net)	$ 10,256	$ 13,161	$ 12,825	$ 2,569	25.0%
Personal	$ 8,686	$ 11,443	$ 11,189	$ 2,503	28.8%
Corporate	$ 1,570	$ 1,718	$ 1,636	$ 66	4.2%
Sales Taxes	$ 6,290	$ 6,430	$ 6,669	$ 379	6.0%
Public Utility Taxes	$ 1,144	$ 1,101	$ 1,129	$ (15)	-1.3%
Cigarette Taxes	$ 350	$ 355	$ 355	$ 5	1.4%
Liquor Taxes	$ 161	$ 161	$ 157	$ (4)	-2.5%
Vehicle Use	$ 26	$ 30	$ 30	$ 4	15.4%
Tax Amnesty Proceeds	$ 250	$ 274	$ 434	$ 184	73.4%
Inheritance Taxes (gross)	$ 56	$ 132	$ 122	$ 66	117.9%
Insurance Taxes & Fees	$ 350	$ 319	$ 317	$ (33)	-9.4%
Corporate Franchise Fees & Taxes	$ 205	$ 205	$ 207	$ 2	1.0%
Interest on State Funds and Investments	$ 35	$ 25	$ 28	$ (7)	-20.0%
Cook County Intergovernmental Transfer	$ 243	$ 244	$ 244	$ 1	0.4%
Other State Sources	$ 346	$ 362	$ 404	$ 58	16.8%
State Source Revenues	**$ 19,712**	**$ 22,799**	**$ 22,920**	**$ 3,208**	**16.3%**
Transfers-In					
Lottery	$ 636	$ 632	$ 632	$ (4)	-0.6%
Riverboat Gaming Taxes	$ 428	$ 338	$ 324	$ (90)	-21.0%
Other Transfers*	$ 652	$ 833	$ 730	$ 181	27.8%
Subtotal State Sources & Transfers	**$ 21,428**	**$ 24,602**	**$ 24,606**	**$ 3,174**	**14.8%**
Federal Sources	$ 6,227	$ 5,506	$ 5,386	$ (721)	-11.6%
Total General Funds Revenues	**$ 27,655**	**$ 30,108**	**$ 29,992**	**$ 2,337**	**8.5%**

*FY2011 Other Transfers were reduced by $505 million in FY2011 Revised and $496 million in FY2011 Preliminary Results, to compare with FY2011 enacted budget where interfund transfers were reported as borrowing for operations.

Sources: Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary FY2011,* p.13; Illinois State FY2012 Budget, pp. 5-12 to 5-23.

Unlike income tax rates, state sales tax rates did not change in FY2011.[54] However, revenues from sales taxes improved by 6.0% from the original FY2011 budget projections. The preliminary results for FY2011 General Funds revenues from sales taxes totaled $6.7 billion. This eclipsed both the original sales tax estimate for FY2011 of $6.3 billion and the midyear revised projection of $6.4 billion included in the Governor's FY2012 recommended budget. The

[54] Since 1990 the sales tax rate on general merchandise in Illinois has remained the same at 6.25%, with 5.0% of the purchase price kept by the State and 1.0% paid to municipal governments and 0.25% to counties. Local governments also may charge sales tax, which leads to varying composite rates across the State. For instance, the total sales tax rate on general merchandise in the City of Chicago totals 9.75% when all of the sales taxes charged by the overlapping governments are added on to the State rate.

FY2011 total is an increase of 8.3%, or $525 million, from FY2010. However, the total is still well below the FY2008 peak in sales tax revenues of $7.2 billion.

FY2012 Enacted Projections

General Funds revenue estimates for FY2012 passed by resolution in HR110 anticipate further increases in income tax receipts from an entire year of the higher income tax rates and additional declines in federal revenues due to the end of the federal ARRA program.[55]

The final revenue projections in HR110, which was used to develop the FY2012 budget, closely match many of the projections published in the Governor's recommended FY2012 budget. The Governor's budget included General Funds revenues for FY2012 totaling $33.9 billion.[56] The revenues in HR 110 matched all of the estimates in the Governor's budget except for the corporate income tax, which was reduced by $759 million. The Governor's revenue estimates included an increase in corporate tax receipts from two proposed legislative changes. The Governor's budget proposed setting aside less to pay back corporate tax refunds owed by the State. It reduced the Refund Funds rate for the corporate tax from 17.0% to 12.5%. The corporate tax estimates also include additional receipts from a proposal by the Governor to decouple from federal bonus depreciation rules.[57] However, these changes were not reflected in the revenue estimates approved in HR 110 and the budget enacted for FY2012 did not include the changes.

The General Funds revenues projections enacted in HR 110 for FY2012 total $33.2 billion, an increase of $3.2 billion over the pre3liminary year-end results of $30.0 billion in FY2011. This amounts to a projected 10.6% year-to-year increase from FY2011 for all General Funds revenues.

Personal income tax proceeds in FY2012, net of refunds, are projected to total $15.0 billion, an increase of $3.8 billion, or 33.7%, from FY2011 total of $11.2 billion.[58] Corporate income tax revenues, net of refunds, are expected to increase by $373 million from $1.6 billion to $2.0 billion, representing 22.8% year-to-year growth. The projections in HR110 would amount to a decline of $83 million from $6.7 billion to $6.6 billion in FY2012, or a loss of 1.2%.

In all, state-source revenues increase from $22.9 billion in FY2011 to $26.5 billion in FY2012. The gains in state-source revenues are partially offset by a decline in General Funds revenues from federal sources. Federal revenues that support FY2012 General Funds operations decline by $542 million, or 10.1%, from FY2011 preliminary results of $5.4 billion to a projection of $4.8 billion in FY2012. The following chart compares the FY2011 preliminary year-end results for General Funds revenues to enacted estimates for FY2012.

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[55] The State's fiscal year runs from July 1 to June 30; the income tax increase took effect on January 1, 2011.
[56] Illinois State FY2012 Budget, p. 2-35.
[57] Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, House Resolution 4853, 111th Congress (2009-2010).
[58] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, p. 24.

State of Illinois General Funds Revenue: FY2011 Preliminary Results and FY2012 Enacted Projections (in $ millions)				
	FY2011 Preliminary Results	**FY2012 Enacted Projections**	**$ Change**	**% Change**
Base Revenues				
State Sources				
Income Taxes (net)	$ 12,825	$ 16,964	$ 4,139	32.3%
Personal	$ 11,189	$ 14,955	$ 3,766	33.7%
Corporate	$ 1,636	$ 2,009	$ 373	22.8%
Sales Taxes	$ 6,669	$ 6,586	$ (83)	-1.2%
Public Utility Taxes	$ 1,129	$ 1,082	$ (47)	-4.1%
Cigarette Taxes	$ 355	$ 355	$ -	0.0%
Liquor Taxes	$ 157	$ 162	$ 5	3.2%
Vehicle Use	$ 30	$ 32	$ 2	6.7%
Tax Amnesty Proceeds	$ 434	$ -	$ (434)	-100.0%
Inheritance Taxes (gross)	$ 122	$ 182	$ 60	49.2%
Insurance Taxes & Fees	$ 317	$ 318	$ 1	0.3%
Corporate Franchise Fees & Taxes	$ 207	$ 204	$ (3)	-1.4%
Interest on State Funds and Investments	$ 28	$ 25	$ (3)	-10.7%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other State Sources	$ 404	$ 365	$ (39)	-9.7%
State Source Revenues	**$ 22,920**	**$ 26,519**	**$ 3,599**	**15.7%**
Transfers-In				
Lottery	$ 632	$ 645	$ 13	2.1%
Riverboat Gaming Taxes	$ 324	$ 426	$ 102	31.5%
Other Transfers*	$ 730	$ 664	$ (66)	-9.0%
Tenth License	$ -	$ 75	na	na
Subtotal State Sources & Transfers	**$ 24,606**	**$ 28,329**	**$ 3,723**	**15.1%**
Federal Sources	$ 5,386	$ 4,844	$ (542)	-10.1%
Total General Funds Revenues	**$ 29,992**	**$ 33,173**	**$ 3,181**	**10.6%**

*For comparision with FY2012, Other Transfers in FY2011 are reduced by $496 million to account for interfund borrowing, included in Debt Trends section on page 44 of this report.

Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, August 1, 2011, p. 31.

FY2012 Revised Projections

The FY2012 General Funds revenue projections passed in HR 110 and used to create the annual budget were based on mid-year estimates of FY2011 revenues that were available in February 2011. The projections took into account a full year of the increased income tax rates and other economic growth factors. Now that the preliminary year-end results are available for FY2011, the Commission on Government Forecasting and Accountability (COGFA) has published updated projections based on the new data.[59]

The revised projections for FY2012 General Funds revenues total $33.9 billion, an increase of $764 million, or 2.3%, from the total of $33.2 billion included in HR 110.

Most of the increase in the revised FY2012 projection is related to growth in income tax receipts. The projections for net income taxes included in HR 110 totaled $17.0 billion, while the revised projection grew by $917 million to $17.9 billion. COGFA's new estimate takes into account both the full year of the income tax rate change and underlying growth of 2.1% for personal income taxes and 7.0% for corporate income taxes. Corporate income tax estimates were also reduced by $600 million due to federal bonus depreciation rules that the State did not decouple from as part of the FY2012 budget.

Base sales tax revenues are only expected to grow by 2.5% from FY2011 to FY2012. However, due to higher than anticipated year-end results for FY2011 the new estimates for FY2012 sales taxes are up $254 million, or 3.7%, from the total projected in HR 110.

Although the new COGFA projections of $29.6 billion for FY2012 state-source revenues are $1.3 billion higher than the total of $28.3 billion in HR 110, the gains are partially offset by an 11.4% decline in federal revenues. Federal resources are down by $494 million from the projections of $4.8 billion included in HR 110 to the revised total of $4.3 billion. This drop is mostly due to reductions in Medicaid appropriations by the General Assembly and an additional Medicaid funding veto by the Governor for FY2012. These reductions result in a corresponding decrease in federal reimbursements for Medicaid that support General Funds operations.[60]

[59] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, p. 32.
[60] See the discussion of Medicaid on page 25 of this report.

The following chart compares FY2012 General Funds revenues projections in HR 110 to the revised projections published by COGFA.

State of Illinois FY2012 General Funds Revenue Projections: Enacted HR 110 Compared to COGFA July 2011 Revised (in $ millions)

	FY2012 Enacted Projections	FY2012 Revised Projections	$ Change	% Change
State Taxes				
Income Taxes (net)	$ 16,964	$ 17,881	$ 917	5.4%
Personal Income Tax	$ 14,955	$ 15,510	$ 555	3.7%
Corporate Income Tax	$ 2,009	$ 2,371	$ 362	18.0%
Sales Taxes	$ 6,586	$ 6,840	$ 254	3.9%
Public Utility Taxes	$ 1,082	$ 1,111	$ 29	2.7%
Cigarette Tax	$ 355	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 162	$ 157	$ (5)	-3.1%
Vehicle Use Tax	$ 32	$ 30	$ (2)	-6.3%
Inheritance Tax	$ 182	$ 188	$ 6	3.3%
Insurance Taxes & Fees	$ 318	$ 320	$ 2	0.6%
Corporate Franchise Tax & Fees	$ 204	$ 208	$ 4	2.0%
Interest on State Funds & Investments	$ 25	$ 30	$ 5	20.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 365	$ 385	$ 20	5.5%
State Source Revenues	**$ 26,519**	**$ 27,749**	**$ 1,230**	**4.6%**
Transfers-In				
Lottery	$ 645	$ 645	$ -	0.0%
Riverboat Transfers & Receipts	$ 501	$ 324	$ (177)	-35.3%
Proceeds From 10th Gaming License	$ -	$ 75	na	na
Other	$ 664	$ 794	$ 130	19.6%
Subtotal State Sources & Transfers	**$ 28,329**	**$ 29,587**	**$ 1,258**	**4.4%**
Federal Sources	**$ 4,844**	**$ 4,350**	$ (494)	-10.2%
Total General Funds Revenues	**$ 33,173**	**$ 33,937**	**$ 764**	**2.3%**

Source: 97th Illinois General Assembly, House Resolution 110; Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary FY2012* , p. 31.

The House also approved a resolution stating that if total General Funds revenues in FY2012 exceeded the projected total of $33.2 billion in HR 110 that all additional revenues should be used by the State to pay unpaid obligations.[61]

[61] 97th Illinois General Assembly, House Resolution 158.

The Governor's Office of Management and Budget (GOMB) also recently published slightly different revenue projections for FY2012 from the enacted projections in HR 110.[62] GOMB's revised projections show a decline in General Funds revenue from $33.2 billion to $33.1 billion. The total decrease of $49 million, or 0.1%, in the revised GOMB projection is a result of a $519 million decline in federal revenues that is not entirely offset by a $470 million increase in State sources. The following chart compares the revenue projections in HR 110 to the projections currently being used by GOMB.

State of Illinois FY2012 General Funds Revenue Projections: Enacted Projections Compared to GOMB Revised Projections (in $ millions)

	FY2012 Enacted Projections	FY2012 GOMB Projections	$ Change	% Change
State Taxes				
Personal Income Tax	$ 14,955	$ 15,056	$ 101	0.7%
Corporate Income Tax	$ 2,009	$ 2,354	$ 345	17.2%
Sales Taxes	$ 6,586	$ 6,610	$ 24	0.4%
Other Sources	$ 365	$ 385	$ 20	5.5%
State Source Revenues	**$ 26,519**	**$ 26,989**	**$ 470**	**1.8%**
Other	$ 664	$ 794	$ 130	19.6%
Subtotal State Sources & Transfers	**$ 28,329**	**$ 28,799**	**$ 470**	**1.7%**
Federal Sources	**$ 4,844**	**$ 4,325**	$ (519)	-10.7%
Total General Funds Revenues	**$ 33,173**	**$ 33,124**	**$ (49)**	**-0.1%**

Source: 97th Illinois General Assembly, House Resolution 110; State of Illinois, *Fiscal Year 2012 Budget Review*, Presentation to Rating Agencies, August 10, 2011.

Income Tax Refund Fund

The corporate and personal 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 businesses.[63]

All refunds, both personal and business, are paid out of the Income Tax Refund Fund. The Illinois Department of Revenue makes it a priority to pay personal income tax refunds to individuals, so when there is a shortfall in the fund, unpaid business refunds rise. Unlike unpaid bills to vendors and local governments, unpaid tax refunds are not reflected in the State's operating budget plan.

The higher the Refund Fund rates, the more money deposited into the Refund Fund and the less revenue available for the State's general operations. Higher rates also reduce the share of income taxes transferred to local governments. Under state law, a specific share of state income tax proceeds is deposited in the Local Government Distributive Fund for distribution to local

[62] State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011, p. 2.

[63] Business refunds and refund rates discussed in this section include both the corporate income tax and the Personal Property Replacement Tax (PPRT) on corporations and the PPRT on subchapter S corporations, partnerships and estates. Replacement taxes are revenues collected by the State and paid to local governments to replace money that was lost by local governments when their power to impose personal property taxes on corporations, partnerships and other business entities was rescinded pursuant to the 1970 Illinois Constitution.

governments.[64] The share had been 10% but was lowered after the State increased income tax rates in January 2011 to allow the State to receive the full benefit of the tax increase.[65] The deposit into the Local Government Distributive Fund is made after income tax revenues are diverted into the Refund Fund.[66]

The Refund Fund rates are set by the Illinois General Assembly or can be set through a statutory formula takes into account both refunds paid and refunds approved but unpaid from the prior year as well as income tax revenues from the prior year.[67] The last time the rates were set using the formula was FY1998. Since then it has been specifically designated in budget legislation passed by the General Assembly and signed by the Governor.[68]

The State has experienced an increase in the backlog of unpaid refunds each year beginning in FY2008 through FY2010. Approved but unpaid business refunds grew to $690.9 million at the end of FY2010 from $3.5 million at the end of FY2008.

According to the Illinois Department of Revenue, 4,569 businesses were owed $626.9 million in income tax refunds at the end of FY2011, down from $690.9 million at the end of FY2010. Nearly 34,000 individuals were owed $18.6 million at the end of FY2011, down from $43.6 million at the end of FY2010, but all of the personal income tax refunds were paid by early July 2011.By the end of FY2012, the Revenue Department expects the backlog of business refunds to decrease slightly to $594.2 million, while refunds owed to individuals are expected to be fully paid.

The following chart shows the refund rates, annual deposits to the Refund Fund, interest paid and the backlog of unpaid refunds at the end of each year by source from FY2008 through the projected totals for FY2012.

State of Illinois Personal Income Tax (PIT) and Business Income Tax (BIT) Refunds FY2008-FY2012 (in $ millions)

	Refund Rate PIT	Refund Fund Deposits PIT	Refunds Paid PIT	Interest Paid PIT	Year End Backlog PIT	Refund Rate BIT	Refund Fund Deposits BIT	Refunds Paid BIT	Interest Paid BIT	Year End Backlog BIT
FY2008	7.75%	$ 867.0	$ 1,076.4	$ 2.6	$ -	15.50%	$571.5	$319.3	$22.1	$3.5
FY2009	9.75%	$ 996.4	$ 1,220.1	$ 2.6	$ 5.3	17.50%	$583.8	$357.6	$57.0	$214.2
FY2010	9.75%	$ 918.8	$ 1,335.4	$ 2.2	$ 43.6	17.50%	$465.8	$0.9	$0.0	$690.9
FY2011	8.75%	$ 1,075.2	$ 1,289.6	$ 1.5	$ 18.6	17.50%	$633.5	$263.4	$22.0	$626.9
FY2012*	8.75%	$ 1,465.3	$ 1,731.6	na	$ -	17.50%	$709.4	$382.7	na	$594.2

*Projected.

Source: Communication between the Civic Federation and the Illinois Department of Revenue, August 31, 2011.

Despite the increased refund backlog in FY2010, the refund rate applied to the personal income tax was reduced by the General Assembly in the budget implementation legislation to 8.75% in FY2011 from 9.75% in FY2010. The business refund rate remained unchanged at 17.5% in FY2011. The Governor's recommended FY2012 budget proposed that the business refund rate

[64] 35 ILCS 5/901(b).
[65]Public Act 96-1496.
[66] A higher business refund rate would also decrease the amount of Personal Property Replacement Tax transferred to local governments.
[67] 35 ILCS 5/901
[68] Communication between the Civic Federation and the Department of Revenue's staff, April 25, 2011.

be reduced from 17.5% to 12.5% and that the personal refund rate remain unchanged at 8.75%. At those rates, the Department of Revenue projected that the backlog of unpaid business refunds would increase to approximately $879 million by the end of FY2011 and roughly $1.1 billion by the end of FY2012.[69] However, the enacted budget did not alter the refund rates from FY2011 to FY2012.

Since then the business tax refund backlog has declined to approximately $626 million in FY2011 and is expected to total $594 million at the end of FY2012. Part of these decreases in State's backlog of refunds is thought to be caused by corporations reducing their income tax payments to avoid overpayment and using refunds owed to offset their tax liabilities.[70] Of the total projected FY2012 backlog of business tax refunds, corporate income tax refunds are expected to make up roughly $386 million; the remaining amount consists of Personal Property Replacement Taxes collected by the State on behalf of local governments.[71]

If the statutory formula had been used for FY2012, the Refund Fund rates would have been 10.6% for the personal income tax and 24.6% for the business income tax.[72] Using these statutory rates would also decrease General Funds revenues by a total of $476.1 million, from $33.2 billion to $32.7 billion, or a loss of 1.4%.

[69] Communication from between Department of Revenue and Civic Federation staff, February 24, 2011.
[70] The Governor's Office of Management and Budget published an projected backlog of $868 million for FY2011 in the State of Illinois $3.7 Billion General Obligation Bonds, *Preliminary Official Statement*, January 21, 2011, p. 30. If the amount of the FY2011 backlog changes significantly, the projections for the FY2012 refund backlog may also change.
[71] Communication between the Civic Federation and the Department of Revenue, September 20, 2011.
[72] Civic Federation calculation based on information provided by the Illinois Department of Revenue.

APPROPRIATIONS AND EXPENDITURES

The General Assembly makes annual appropriations for state government operations from General Funds, Other State Funds and Federal Funds. General Funds support the regular operating and administrative expenses of most state agencies and are the part of the budget over which the State has the most discretion and control. Other State Funds are accounts for activities funded by specific revenue sources that may only be used for designated purposes. Federal Funds (other than those designated for General Funds) support a variety of state programs funded with federal revenues.

The State makes the majority of its General Funds expenditures from annual appropriations by the General Assembly. General Funds are also used to make statutorily required transfers to other funds. Transfers out include amounts dedicated to debt service bond payments and other legislatively required funding transfers.

Appropriations by Fund

Enacted FY2012 General Funds appropriations of $29.2 million are 1.7% below enacted FY2011 General Funds appropriations of $29.7 million. General Funds totals include agency appropriations and pension contributions. Agency appropriations decline by 3.2% from $25.8 billion to $25.0 billion, while pension contributions increase by 7.9% from $3.9 billion to $4.2 billion. Other State Funds appropriations increase by 4.8% to $18.3 billion from FY2011 to FY2012, while Federal Funds appropriations decline by 11.4% from $10.2 billion to $9.0 billion. Total enacted appropriations decline by 1.4% from $57.4 billion in FY2011 to $56.6 billion in FY2012.[73]

State of Illinois Total Appropriations: FY2011-FY2012 (in $ millions)

	FY2011 Enacted	FY2012 Enacted	$ Change	% Change
General Funds				
Agency General Funds	$ 25,814	$ 24,991	$ (823)	-3.2%
Pension Contributions*	$ 3,919	$ 4,230	$ 311	7.9%
Total General Funds	$ 29,733	$ 29,221	$ (512)	-1.7%
Other State Funds**	$ 17,493	$ 18,334	$ 841	4.8%
Federal Funds	$ 10,206	$ 9,047	$ (1,159)	-11.4%
Total	**$ 57,432**	**$ 56,602**	**$ (830)**	**-1.4%**

*Pension contributions for FY2011 were made primarily by issuance of pension obligation bonds not from General Funds, but are shown above for purposes of comparability.

**Other State Funds appropriations are reduced by Revolving Funds appropriations to avoid double counting. FY2012 Revolving Funds appropriations are projections based on Governor's FY2012 recommended budget.

Source: State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011; Illinois State FY2012 Budget, pp. 2-13 and 2-32.

The General Funds agency appropriation of $25.0 billion does not include adequate funding to pay for the total expected cost of the Medicaid program in FY2012.[74] In addition, the Governor

[73] FY2012 total appropriations of $56.6 billion used a projection of Revolving Funds appropriations based on the Governor's FY2012 recommended budget.

has urged the General Assembly to pass supplemental appropriations to cover underfunded salary costs in certain agencies.[75]

The next table compares Governor Quinn's FY2012 recommended appropriations to enacted FY2012 appropriations. For FY2012 the Governor recommended General Funds appropriations of $31.5 billion. The General Assembly passed General Funds appropriations of $29.6 billion, but the Governor vetoed $376.4 million of those appropriations.[76] Enacted FY2012 General Funds appropriations total $29.2 billion, a reduction of 7.1% from the Governor's recommendation. General Funds enacted appropriations for agencies at $25.0 billion are 7.0% lower than the $26.9 billion recommended by the Governor. General Funds appropriations for pension contributions were lowered by 7.9% from $4.6 billion to $4.2 billion. The decline reflects a reduction in state contributions to the Chicago Teachers' Pension Fund and the reallocation of administrative expenses.[77]

Other State Funds appropriations increase by 8.1% from $17.0 billion to $18.3 billion,[78] and Federal Funds appropriations increase by 1.8% from $8.9 billion to $9.0 billion. Total appropriations decline by 1.2% from $57.3 billion to $56.6 billion.

State of Illlinois Total Appropriations: FY2012 Recommended-FY2012 Enacted (in $ millions)

	FY2012 Rec.	FY2012 Enacted	$ Change	% Change
General Funds				
Agency General Funds	$ 26,868	$ 24,991	$ (1,877)	-7.0%
Pension Contributions	$ 4,594	$ 4,230	$ (364)	-7.9%
Total General Funds	$ 31,462	$ 29,221	$ (2,241)	-7.1%
Other State Funds*	$ 16,956	$ 18,334	$ 1,378	8.1%
Federal Funds	$ 8,885	$ 9,047	$ 162	1.8%
Total	**$ 57,303**	**$ 56,602**	**$ (701)**	**-1.2%**

*Other State Funds appropriations are reduced by Revolving Funds appropriations to avoid double counting. FY2012 Revolving Funds appropriations are projections based on Governor's FY2012 recommended budget.

Source: State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011; Illinois State FY2012 Budget, pp. 2-13 and 2-32.

74 See p. 25 for a discussion of Medicaid.
75 See p. 28 for a discussion of employee salaries.
76 Email communication between the Civic Federation and the Governor's Office of Management and Budget, July 12, 2012.
77 State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011.
78 Governor Quinn also vetoed $336.2 million of Other State Funds appropriations to eliminate duplicate appropriations. See Illinois Government News Service, "Governor Quinn Takes Budget Action," *news release*, June 30, 2011, http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=2&RecNum=9516 (last visited on July 20, 2011).

Appropriations by Agency

The next table shows FY2011 and FY2012 appropriations for the 10 largest agencies, ranked by total FY2012 appropriations. The largest increase involves employee group health insurance, which was significantly underfunded in FY2011. Total appropriations for group health increase by $633 million, or 36.0%, from $1.8 billion in FY2011 to $2.4 billion in FY2012. Total appropriations for the Department of Revenue increase by $450 million, or 37.6%, due to lottery-related expenses.

The largest declines involve the Departments of Healthcare and Family Services (HFS) and Human Services and the State Board of Education. Despite flat General Funds appropriations, total appropriations for HFS decline by $2.4 billion, or 13.9%, from $17.0 billion in FY2011 to $14.6 billion in FY2012. The HFS budget is discussed below in connection with the State's Medicaid program. Total appropriations for Human Services decline by $774 million, or 12.4%, from $6.2 billion to $5.5 billion. The reductions include a $68 million decrease in appropriations for state institutions for the developmentally disabled and for the mentally ill, as discussed below in connection with personnel expenses.

Total appropriations for the State Board of Education decline by $936 million, or 8.4%, from $11.2 billion to $10.3 billion. General State Aid to local school districts is reduced by $152 million and federal funding declines by $666 million due to the loss of stimulus and Race to the Top funds.[79] Regular transportation funding for education falls by $72 million from FY2011 after the Governor reduced the General Assembly's appropriation by $89 million.[80] The Governor also vetoed $11 million of line items in the General Assembly's budget for salaries and other expenses of regional school superintendents, an action that has been challenged by school superintendents in a lawsuit in Sangamon County Circuit Court.[81]

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[79]Illinois State Board of Education, FY2012 Operating Budget at June 30, 2011, http://www.isbe.net/budget/FY12_budget.pdf (last visited on August 31, 2011).

[80] Illinois State Board of Education, FY2012 Operating Budget at June 30, 2011, http://www.isbe.net/budget/FY12_budget.pdf (last visited on August 31, 2011).

[81] Doug Finke, "Regional school superintendents file suit to have pay reinstated," *State Journal-Register*, August 19, 2011.

State of Illinois All Funds Appropriations by Major Agency: FY2011-FY2012 (in $ millions)*				
	FY2011 Revised Enacted**	FY2012 Enacted	$ Change	% Change
Healthcare and Family Services	**$ 16,960**	**$ 14,607**	**$ (2,354)**	**-13.9%**
General Funds	$ 6,777	$ 6,766	$ (11)	-0.2%
Other State Funds	$ 9,984	$ 7,541	$ (2,443)	-24.5%
Federal Funds	$ 200	$ 350	$ 150	75.0%
State Board of Education	**$ 11,201**	**$ 10,265**	**$ (936)**	**-8.4%**
General Funds	$ 7,020	$ 6,750	$ (270)	-3.8%
Other State Funds	$ 54	$ 54	$ -	0.0%
Federal Funds	$ 4,127	$ 3,461	$ (666)	-16.1%
Human Services	**$ 6,245**	**$ 5,472**	**$ (774)**	**-12.4%**
General Funds	$ 3,833	$ 3,209	$ (625)	-16.3%
Other State Funds	$ 774	$ 542	$ (232)	-29.9%
Federal Funds	$ 1,638	$ 1,721	$ 83	5.1%
Transportation	**$ 2,553**	**$ 2,741**	**$ 188**	**7.4%**
General Funds	$ 79	$ 32	$ (47)	-60.0%
Other State Funds	$ 2,470	$ 2,704	$ 234	9.5%
Federal Funds	$ 4	$ 5	$ 1	22.5%
Higher Education* **	**$ 2,629**	**$ 2,576**	**$ (53)**	**-2.0%**
General Funds	$ 2,154	$ 2,092	$ (62)	-2.9%
Other State Funds	$ 89	$ 92	$ 3	3.5%
Federal Funds	$ 386	$ 391	$ 5	1.3%
Employee Group Health Insurance	**$ 1,758**	**$ 2,391**	**$ 633**	**36.0%**
General Funds	$ 864	$ 1,412	$ 548	63.4%
Other State Funds	$ 894	$ 979	$ 85	9.5%
Federal Funds	$ -	$ -	$ -	na
Commerce and Economic Opp.	**$ 2,408**	**$ 1,978**	**$ (430)**	**-17.9%**
General Funds	$ 65	$ 32	$ (33)	-50.4%
Other State Funds	$ 271	$ 400	$ 129	47.3%
Federal Funds	$ 2,071	$ 1,545	$ (526)	-25.4%
Revenue	**$ 1,195**	**$ 1,645**	**$ 450**	**37.6%**
General Funds	$ 119	$ 110	$ (10)	-8.0%
Other State Funds	$ 996	$ 1,535	$ 539	54.1%
Federal Funds	$ 80	$ 0	$ (80)	-99.7%
Children and Family Services	**$ 1,280**	**$ 1,256**	**$ (24)**	**-1.9%**
General Funds	$ 850	$ 809	$ (41)	-4.9%
Other State Funds	$ 422	$ 440	$ 18	4.2%
Federal Funds	$ 8	$ 8	$ (0)	-4.9%
Department of Corrections	**$ 1,328**	**$ 1,250**	**$ (79)**	**-5.9%**
Gneral Funds	$ 1,210	$ 1,167	$ (43)	-3.5%
Other State Funds	$ 119	$ 83	$ (36)	-30.3%
Federal Funds	$ -	$ -	$ -	na

*This table does not include the Treasurer's Office, with total FY2012 appropriations of $3.0 billiion, because $2.9 billion is related to debt service on state bonds. See Public Act 97-0055.

**Enacted FY2011 appropriations as revised to acccount for Governor's allocations of lump-sum appropriations. These are not preliminary results because they do not account for unspent appropriations.

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

Source: Email communication between the Civic Federation and the Governor's Office of Management and Budget, July 12, 2011; Public Act 97-0058; Commission on Government Forecasting and Accountability, *Liabilities of the State employees' Group Health Insurance Program Fiscal Year 2012* , March 2011, p. 5; and email communication between the Civic Federation and the Department of Healthcare and Family Services, September 1, 2011.

The following table shows the agencies with the largest General Funds appropriations for FY2012. The Departments of Transportation, Revenue and Commerce and Economic Opportunity do not appear in this ranking because most of their funding comes either from Other State Funds or Federal Funds.

State of Illinois General Funds Appropriations by Major Agency: FY2011-FY2012 (in millions)				
	FY2011 Revised Enacted*	FY2012 Enacted	$ Change	% Change
Healthcare and Family Services	$ 6,777	$ 6,766	$ (11)	-0.2%
State Board of Education	$ 7,020	$ 6,750	$ (269)	-3.8%
Human Services	$ 3,833	$ 3,209	$ (625)	-16.3%
Higher Education**	$ 2,154	$ 2,092	$ (62)	-2.9%
Employee Group Health Insurance	$ 885	$ 1,412	$ 527	59.5%
Corrections	$ 1,210	$ 1,167	$ (43)	-3.5%
Children and Family Services	$ 850	$ 809	$ (41)	-4.9%
Aging	$ 651	$ 737	$ 87	13.3%
Supreme Court	$ 310	$ 288	$ (22)	-7.1%
State Police	$ 277	$ 272	$ (5)	-1.8%
Secretary of State	$ 260	$ 260	$ -	0.0%
Public Health	$ 168	$ 132	$ (35)	-21.1%
Juvenile Justice	$ 142	$ 119	$ (23)	-16.1%
Revenue	$ 119	$ 110	$ (10)	-8.0%
State Comptroller	$ 107	$ 108	$ 0	0.2%
Central Management Services	$ 86	$ 70	$ (16)	-18.7%
Veterans' Affairs	$ 68	$ 64	$ (4)	-6.5%
General Assembly	$ 52	$ 57	$ 5	10.3%
Court of Claims	$ 32	$ 53	$ 21	65.1%
Natural Resources	$ 62	$ 49	$ (13)	-20.5%

*Enacted FY2011 appropriations as revised to acccount for the Governor's allocations of lump-sum appropriations. These are not preliminary results because they do not account for unspent appropriations.

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

Source: Email communication between the Civic Federation and the Governor's Office of Management and Budget, August 12, 2011; Public Act 97-0058; State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011; and email communication between the Civic Federation and the Department of Healthcare and Family Services, September 1, 2011.

Medicaid

As a program involving several state agencies, Medicaid has no single programmatic appropriation in the state budget. HFS administers the State's Medicaid program and accounts for most of its spending, but a significant share of Medicaid expenditures are made by other agencies.[82] In the state budget, the best approximation to the Medicaid program is HFS' Medical Assistance program, although roughly 10% of these appropriations are outside of the Medicaid program.

[82] Illinois Department of Healthcare and Family Services, *Annual Report: Medical Assistance Program Fiscal Years 2008, 2009 and 2010*, April 1, 2011, p. 12. Other agencies include the Departments of Human Services, Public Health and Children and Family Services and the Department on Aging. For more information on Medicaid, see The Civic Federation's Institute on Illinois' Fiscal Sustainability, *Illinois Medicaid Program: An Issue Brief*, May 22, 2009, http://www.civicfed.org/iifs/publications/illinois-medicaid-program-issue-brief (last visited on April 15, 2011).

State Medicaid expenditures are reimbursed by the federal government at a rate known as the Federal Medical Assistance Percentage (FMAP). The FMAP for Illinois rose to 61.88% as a result of the federal American Recovery and Reinvestment Act of 2009 but dropped to 50.20% after stimulus funding ended on June 30, 2011.[83] General Funds appropriations shown in the budget are gross amounts, meaning that they represent authorized state spending before netting out federal reimbursements.

The Medical Assistance appropriations enacted for FY2012 total $13.9 billion, down 15.0% from $16.4 billion in FY2011. General Funds appropriations remain virtually unchanged from FY2011 at $6.6 billion in the FY2012 enacted budget. The Governor recommended General Funds appropriations of $7.5 billion for FY2012, an increase of 12.3% from FY2011.

Other State Funds appropriations decline to $7.3 billion from $9.7 billion in FY2011. Appropriations in FY2011 were inflated by $1.4 billion in supplemental appropriations at the end of the year that were largely not spent.[84] Other State Funds appropriations are also reduced in FY2012 due to the lower FMAP and HFS' loss of revenues stemming from tobacco litigation. In FY2011 the State sold bonds based on proceeds from settlement of the litigation; the tobacco settlement money that previously went to HFS is now being used for debt service on the bonds.

Illinois Department of Healthcare and Family Services Medical Assistance Program Appropriations: FY2011-FY2012 (in $ millions)

	FY2011 Revised Enacted*	FY2012 Rec.	FY2012 Enacted
General Funds	$ 6,634	$ 7,452	$ 6,639
Other State Funds	$ 9,723	$ 7,116	$ 7,266
Federal Funds	$ -	$ -	$ -
Total	**$ 16,358**	**$ 14,568**	**$ 13,905**

*Enacted FY2011 appropriations as revised to acccount for the Governor's allocations of lump-sum appropriations. These are not preliminary results because they do not account for unspent appropriations.

Source: Email communication between the Civic Federation and the Department of Healthcare and Family Services, September 2, 2011.

Simply reducing Medicaid appropriations will not reduce Medicaid spending. Medicaid is an entitlement program under which certain categories of low-income people who meet eligibility requirements are entitled to specified medical services. No spending cuts occur unless there are reductions in eligibility, benefits or reimbursement rates paid to medical services providers.

In his budget recommendation for FY2012, the Governor proposed a $552.3 million reduction in Medicaid reimbursement rates, approximately half of which affected hospitals. The Illinois Hospital Association strongly opposed the rate reductions, and they were not supported by the General Assembly.[85]

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[83] The FMAP declines to 50.0% on October 1, 2011.
[84] Communication between the Civic Federation and Department of Healthcare and Family Services, September 2, 2011.
[85] Illinois Hospital Association, Spring 2011 State Legislative Session Summary, June 1, 2011, http://www.ihatoday.org/News-and-Reports/News-and-Memos/Content/Spring-2011-State-Legislative-Session-Summary/69.aspx (last visited on September 2, 2011).

According to HFS, the budget passed by the legislature decreased Medicaid appropriations by $537.4 million from the Governor's proposal—without any program cuts.[86] The General Assembly's budget also reduced proposed savings on Illinois Cares Rx, a prescription drug program for seniors, and blocked a proposed statutory transfer to provide additional Medicaid funding.

The FY2012 budget passed by the General Assembly was underfunded by $1.4 billion.[87] Under the Governor's FY2012 budget proposal, unpaid Medicaid bills were expected to increase from $300 million at the end of FY2011 to $700 million at the end of FY2012.[88] The General Assembly's budget resulted in an estimated increase in unpaid bills to roughly $2.1 billion at the end of FY2012 and a delay of up to 120 days in paying Medicaid bills.[89] In Illinois, Medicaid claims may be paid out of future years' appropriations under a provision of Section 25 of the State Finance Act.[90] The provision has repeatedly been used to budget an insufficient amount of Medicaid appropriations to cover costs for a given fiscal year, knowing that the bills will be paid from the next year's appropriations.[91]

Governor Quinn's subsequent veto of $267 million of Medicaid appropriations was intended to prod hospitals to accept a cut in Medicaid rates.[92] However, if rates are not cut, the Governor's additional reduction in FY2012 Medicaid appropriations would increase unpaid bills to $2.4 billion by the end of the fiscal year and lengthen the payment delay to 162 days, according to HFS officials.[93] The Illinois Hospital Association has urged the General Assembly to override the Governor's veto.[94]

State Employee Payroll

General Funds appropriations enacted in FY2012 for salaries in agencies under the Governor remain virtually unchanged from FY2011 at $2.3 billion.[95] As shown in the chart below, Governor Quinn had recommended appropriations of $2.5 billion, an increase of 10.8%. FY2012 enacted appropriations for salaries are 9.2% below the Governor's recommendation.

[86] Department of Healthcare and Family Services, FY12 Budget Impacts: Update on Final Budget Adopted by General Assembly, June 6, 2011, http://www.hfs.illinois.gov/assets/062111_budget.pdf (last visited on September 2, 2011).
[87] Department of Healthcare and Family Services, FY12 Budget Impacts: Update on Final Budget Adopted by General Assembly, June 6, 2011, http://www.hfs.illinois.gov/assets/062111_budget.pdf (last visited on September 2, 2011).
[88] Email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 6, 2011.
[89] Approximately $1.7 billion of Medicaid bills from HFS and the Department of Human Services were paid off in June 2011 mainly with General Funds, according to HFS.
[90] 30 ILCS 105/25.
[91] State of Illinois Comptroller, "The Section 25 Budget 'Loophole'," *Fiscal Focus*, July 2008, p.7.
[92] Illinois Government News Network, FY12 Budget Veto Descriptions, June 30, 2011, http://www2.illinois.gov/gov/Documents/Budget/Reduction%20Veto%20Sheet%20FY2012.pdf (last visited on September 2, 2011).
[93] Communication between the Civic Federation and the Department of Healthcare and Family Services, July 11, 2011.
[94] Illinois Hospital Association, Governor Cuts Medicaid in Fy2012 State Budget, July 1, 2011, http://www.ihatoday.org/advocacy/advocacy-alerts-and-updates/Content/Governor-Cuts-Medicaid-in-FY2012-State-Budget/41.aspxt (last visited on September 2, 2011).
[95] See Appendix D for a list of agencies under the Governor.

State of Illinois General Funds Salary Costs for Agencies Under the Governor by Purpose FY2011-FY2012 (in $ millions)*					
	FY2011 Revised Enacted**	FY2012 Rec.	FY2012 Enacted	$ Change FY2012 Rec.-Enacted	% Change FY2012 Rec.-Enacted
Human Services***	$ 1,160	$ 1,275	$ 1,136	$ (139)	-10.9%
Public Safety and Regulation	$ 940	$ 1,055	$ 995	$ (60)	-5.6%
Government Services	$ 92	$ 99	$ 79	$ (20)	-20.1%
Quality of Life	$ 41	$ 48	$ 38	$ (10)	-21.3%
Education****	$ 38	$ 38	$ 38	$ (1)	-2.1%
Economic Development	$ 28	$ 30	$ 26	$ (3)	-11.4%
Total	**$ 2,298**	**$ 2,546**	**$ 2,313**	**$ (233)**	**-9.2%**

*See Appendix C for list of agencies by purpose and Appendix D for list of agencies under the Governor.

**Enacted FY2011 appropriations as revised to acccount for the Governor's allocations of lump-sum appropriations. These are not preliminary results because they do not account for unspent appropriations.

***FY2012 enacted number is estimated due to lump sum appropriations by the General Assembly for the Department of Human Services.

****Includes state education agenices but not the State's nine public universities or the Illinois Math and Science Academy.

Source: Civic Federation analysis based on data provided by the Governor's Office of Management and Budget, August 29, 2011.

For 14 agencies under the Governor, the payroll appropriation for FY2012 is not sufficient to cover scheduled union raises, according to the Governor's Office of Management and Budget.[96] For 12 of the 14 agencies, the appropriation does not cover base payroll as of June 2011 without raises. The FY2012 appropriation for the Department of Human Services is an estimate because the General Assembly made only lump-sum appropriations for state institutions for the developmentally disabled and mentally ill, rather than line-item appropriations classified by purpose of expenditure.[97] FY2012 appropriations for the institutions decline by $68.0 million to $427.7 million from $495.7 million in FY2011. Governor Quinn had recommended FY2012 appropriations of $542.8 million.[98]

[96] Affidavit of Marc Staley, filed as Exhibit 3 to Irving Declaration in Council 31 of the American Federation of State, County and Municipal Employees AFL-CIO v. Pat Quinn et al., No. 11-3203 (C.D. Ill filed July 8, 2011).
[97] Public Act 97-0070.
[98] Illinois State FY2012 Budget, pp. 9-36-9-37; Public Act 97-0070.

The next table compares payroll numbers, before and after scheduled raises, with FY2012 salary appropriations for the 14 agencies. The gap between FY2012 appropriations and salaries including the scheduled raises is estimated at roughly $175 million.

State of Illinois General Funds Salary Appropriations and Estimated Costs for Selected Agencies: FY2012 (in $ thousands)					
Agency	Base Payroll*	Union Raises	Base Plus Union Raises	FY2012 Appropriation	Shortfall with Union Raises
Natural Resources	$ 37,704	$ 1,457	$ 39,161	$ 30,216	$ (8,945)
Juvenile Justice	$ 89,527	$ 3,773	$ 93,300	$ 86,463	$ (6,837)
Corrections	$ 781,180	$ 30,599	$ 811,779	$ 756,673	$ (55,106)
Human Rights	$ 7,391	$ 309	$ 7,700	$ 5,668	$ (2,032)
Human Services**	$ 716,751	$ 30,500	$ 747,251	$ 661,815	$ (85,436)
Labor	$ 4,351	$ 146	$ 4,497	$ 4,314	$ (183)
Public Health	$ 36,900	$ 1,722	$ 38,622	$ 37,572	$ (1,050)
Revenue	$ 73,824	$ 3,210	$ 77,034	$ 63,726	$ (13,308)
Deaf and Hard of Hearing Commission	$ 479	$ 16	$ 495	$ 465	$ (30)
Guardianship and Advocacy Commission	$ 8,465	$ 313	$ 8,778	$ 8,093	$ (685)
Historic Preservation Agency	$ 7,267	$ 305	$ 7,572	$ 6,655	$ (917)
Human Rights Commission	$ 1,702	$ 45	$ 1,747	$ 1,456	$ (291)
Criminal Justice Information Authority	$ 1,200	$ 64	$ 1,264	$ 1,214	$ (50)
Prisoner Review Board	$ 1,018	$ 46	$ 1,064	$ 933	$ (131)
Total	**$ 1,767,759**	**$ 72,505**	**$ 1,840,264**	**$ 1,665,263**	**$ (175,001)**

*Estimated as of June 2011.

**FY2012 personnel appropriation for the Department of Human Services is estimated due to lump sum appropriations by the General Assembly.

Source: Affidavit of Marc Staley, filed as Exhibit 3 to Irving Declaration in Council 31 of the American Federation of State, County and Municipal Employees, AFL-CIO v. Pat Quinn et al., No. 11-3203 (C.D. Ill filed July 8, 2011); communication between the Civic Federation and the Governor's Office of Management and Budget, August 30, 2011.

Citing inadequate appropriations by the General Assembly, the Governor cancelled union raises scheduled to take effect on July 1, 2011 that affected approximately 30,000 members of Council 31 of the American Federation of State, County and Municipal Employees (AFSCME).[99] AFSCME responded to the Governor's action by filing a federal lawsuit against the State[100] and seeking a ruling on the dispute from an independent arbitrator.[101] On July 19, 2011, the arbitrator ruled that the raise was required under the contract and therefore must be paid.[102] The Department of Central Management Services filed a lawsuit in Cook County Circuit Court appealing the arbitrator's decision.[103] A Cook County judge temporarily blocked the pay

[99]Doug Finke, "Quinn cancels $75 million in state employee pay raises," State Journal-Register, July 1, 2011.
[100] Council 31 of the American Federation of State, County and Municipal Employees AFL-CIO v. Pat Quinn et al., No. 11-3203 (C.D. Ill filed July 8, 2011).
[101] Council 31 AFSCME, "AFSCME takes pay dispute to independent arbitrator," *news release*, July 7, 2011, http://www.afscme31.org/news?id=0220 (last visited on July 20, 2011).
[102] In the Matter of the Arbitration between State of Illinois and AFSCME Council 31, Case No. Arb. Ref. 10.251, *Opinion and Award*, July 19, 2011, p. 25.
[103] State of Illinois (Central Management Services) v. American Federation of State, County and Municipal Employees, Council 31, No. 11CH25352 (Cook County Circuit Court filed July 19, 2011).

raises.[104] On September 8, 2011, a federal judge in Springfield dismissed AFSCME's complaint against the State; the union has said it will appeal the decision.[105]

The legal dispute involves a pay raise agreed to by AFSCME in January 2010 as part of negotiated changes in a contract that runs from FY2009 through FY2012.[106] The agreement came after Governor Quinn proposed 2,600 layoffs and the union won a preliminary injunction in Johnson County Circuit Court blocking the action.[107] The original contract increased wages by 15.25% over four years.[108] Under the January 2010 agreement, AFSCME deferred scheduled wage increases in exchange for a promise of virtually no layoffs and no state facility closures through June 30, 2011.[109] Workers were to receive 2% wage increases on July 1, 2010 and January 1, 2011, but half of these increases were deferred until June 1, 2011. The union also agreed to voluntary furloughs and to $70 million in employee health insurance savings. The agreement nullified a provision in the contract that would have allowed the State to reopen discussions on health insurance costs.

In September 2010, the January agreement was extended through the end of FY2012 and AFSCME agreed to $50 million in additional spending cuts.[110] The union also agreed to defer half of the 4% raise due on July 1, 2011 until February 1, 2012.[111] Employees were scheduled to receive the following wage increases: January 1, 2011 – 1%; June 1, 2011 – 2%; July 1, 2011 – 2%; January 1, 2012 – 1.25%; and February 1, 2012 – 2%.

On September 8, 2011, Governor Quinn said that the General Assembly's FY2012 budget did not cover a total of $314 million in certain agencies' FY2012 costs for payroll and operating facilities.[112] Cancelling the scheduled union raises will save approximately $76 million. The Governor said he was taking steps to lay off 1,938 workers and close seven state institutions—including three institutions for the mentally ill and two for the developmentally disabled—to save an additional $55 million. At the same time, the Governor urged the legislature to uphold his veto of $376 million in General Funds appropriations and pass supplemental appropriations to avert the closings and layoffs.

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104 Monique Garcia, "Judge puts state pay raises on hold," *Chicago Tribune*, July 23, 2011.
105 Council 31 AFSCME, "Judge Dismissed Pay Lawsuit; Union Will Appeal," September 8, 2011, http://www.afscme31.org/news?id=0253 (last visited on September 9, 2011).
106 The contract was signed by former Governor Rod Blagojevich.
107 Dave McKinney, "Judge puts brakes on gov's layoff plan; Says AFSCME, state need arbitration over 2,600 jobs," *Chicago Sun-Times*, September 29, 2009.
108 AFSCME Council 31, "State contract ratified by huge margin," September 5, 2008, AFSCME Council 31 (last visited on April 28, 2011).
109 AFSCME Council 31, "AFSCME, state reach mediated resolution on layoff grievances," http://www.afscme31.org/news?id=0011 (last visited on April 25, 2011).
110 Chris Wetterich, "AFSCME, state need to find $90 million in savings," *The State Journal-Register*, October 6, 2010.
111 Council 31 of the American Federation of State, County and Municipal Employees, AFL-CIO v. Pat Quinn et al., No. 11-3203 (C.D. Ill filed July 8, 2011).
112 Office of the Governor, Fact Sheet – FY12 Budget Management, September 8, 2011, http://statehousemedia.com/illinois/September/gov_firing.pdf (last visited on September 9, 2011).

State Employee and Retiree Health Insurance

The State's group health insurance program covered 351,566 employees, retirees and dependents as of March 2011.[113] The program receives funding from General Funds, the State's Road Fund, member employee contributions, universities and other sources.[114] Funding from all sources is deposited into the Health Insurance Reserve Fund to pay insurance claims.

Group health insurance was expected to cost roughly $2.3 billion in FY2011.[115] However, appropriations for FY2011 totaled only $1.8 billion because of inadequate General Funds appropriations.[116] General Funds appropriations to group health insurance dropped from $1.1 billion in FY2010 to $885 million in FY2011. Like the Medicaid program, the employee health program is covered by the provision of Section 25 of the State Finance Act that allows prior years' bills to be paid from future years' appropriations.[117]

As a result of the underfunding, the backlog of employee health bills held by the State as of June 30, 2011 was estimated at $1.2 billion.[118] Payment on some health insurance claims is currently delayed by nearly a year because of insufficient funds, according to the Department of Central Management Services, which administers state employee benefits.[119]

For FY2012, the General Funds appropriation for group health increases to $1.4 billion, resulting in a total appropriation of $2.4 billion. The increased funding was intended to cover the program's actual annual costs and prevent an increase in the backlog of unpaid insurance claims.

However, a dispute involving the awarding of new health insurance contracts has led to changes in the health plans available to employees.[120] Employees will be offered another chance to switch health plans for the current fiscal year in October 2011.[121] Because enrollment changes could affect costs, an estimate of the backlog of insurance claims at the end of FY2012 was not available from HFS, which handles healthcare purchasing.

[113] Commission on Government Forecasting and Accountability, *Liabilities of the State Employees' Group Health Insurance Program Fiscal Year 2012*, March 2011, p. 6. For more information on the group health program, see also The Civic Federation, *State of Illinois Employee Health Insurance Plans: Analysis and Recommendations for Cost Containment*, April 16, 2007; and The Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2012 Recommended Operating and Capital Budgets: Analysis and Recommendations*, May 9, 2011, pp. 52-56.
[114] Commission on Government Forecasting and Accountability, *Liabilities of the State Employees' Group Health Insurance Program Fiscal Year 2012*, March 2011, p. 5.
[115] Commission on Government Forecasting and Accountability, *Liabilities of the State Employees' Group Health Insurance Program Fiscal Year 2012*, March 2011, p. 3.
[116] Communication between the Civic Federation and the Department of Healthcare and Family Services, September 1, 2011.
[117] 30 ILCS 105/25.
[118] Communication between the Civic Federation and the Department of Healthcare and Family Services, August 25, 2011.
[119] Illinois Department of Central Management Services website, State Employees Group Insurance Program, http://www.state.il.us/cms/3_servicese_ben_choice/claims-delay-notice.htm (last visited on September 1, 2011).
[120] For more information on the contract dispute, see the Institute for Illinois' Fiscal Sustainability blog at http://www.civicfed.org/civic-federation/blog/court-likely-decide-dispute-over-state-employee-health-insurance.
[121] Illinois Department of Central Management Services website, Special Enrollment Period, http://www.state.il.us/cms/3_servicese_ben_choice/Special-enroll-Sept-1.htm (last visited on September 4, 2011).

Expenditures from General Funds

Expenditures from General Funds consist of net appropriations spent and statutory transfers out. Net appropriations spent are calculated by subtracting out appropriations that remain unspent. Appropriations remain unspent because they are held back at the Governor's direction or because expenses do not reach budgeted levels.

General Funds are also diverted or transferred out to Other State Funds to make debt service payments on bonds and for a wide range of other legislatively required transfers to other funds. Debt service payments on bonds decline by 10.3% from $2.4 billion in FY2011 to $2.2 billion in FY2012; in FY2011 the State repaid the previous year's Medicaid borrowing. Total debt payments, including repayment of interfund borrowing, increase by 15.0% from $2.4 billion in FY2011 to $2.8 billion in FY2012.

Debt service on Pension Obligation Bonds (POBs) will be $1.6 billion in FY2012, or 74.0% of total debt service paid from General Funds. Total pension-related payments in FY2012, including debt service and pension contributions, will amount to $5.8 billion, or 17.4% of total General Funds expenditures.

Legislatively required transfers total $2.1 billion in FY2012, down 13.9% from $2.4 billion in FY2011. Transfers in FY2011 included an additional $365 million to the Healthcare Provider Relief Fund to take advantage of enhanced federal reimbursement rates for Medicaid that expired on June 30, 2011.[122] The largest legislatively required transfer is to the Local Government Distributive Fund, which will receive $1.1 billion from General Funds in FY2012, or 52.2% of total legislatively required transfers. Under state law, a specific share of state income tax proceeds is deposited in the Local Government Distributive Fund for distribution to local governments.[123] The share had been 10% but was lowered after the State increased income tax rates in January 2011 to allow the State to receive the full benefit of the tax increase.[124] General Funds are also used for a wide range of other legislatively required transfers—from funding mass transit to supporting the Lincoln Presidential Library in Springfield to promoting thoroughbred racing.

[122] Public Act 97-0044.
[123] 35 ILCS 5/901(b).
[124] Public Act 96-1496.

The following table shows the State's budget plans for General Funds from FY2008 to FY2012. Total General Funds expenditures increase by 10.6%, from $30.4 billion in FY2008 to $33.6 billion in FY2012. During the period, net agency appropriations decline by 1.7% to $24.5 billion from $24.9 billion. Pension contributions rise by 88.1% from $2.2 billion to $4.2 billion, resulting in an increase of 5.8% in net appropriations spent. Total statutory transfers out increase due to the growth in debt service payments and repayment of interfund borrowing. Debt service payments on POBs increase by $1.1 billion from FY2008 to FY2012 because of the sale of POBs in FY2010 and FY2011 to pay for General Funds pension contributions.

State of Illinois General Funds Expenditures: FY2008-FY2012 (in $ millions)

	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Preliminary Results	FY2012 Enacted	$ Change FY2008-FY2012	% Change FY2008-FY2012
Agency Appropriations	$ 25,289	$ 27,796	$ 26,354	$ 25,845	$24,991	$ (298)	-1.2%
Less Unspent Appropriations	$ (385)	$ (322)	$ (896)	$ (450)	$ (500)	$ (115)	29.9%
Net Agency Appropriations	$ 24,904	$ 27,474	$ 25,458	$ 25,395	$24,491	$ (413)	-1.7%
Pension Contributions*	$ 2,249	$ 2,486	$ 3,466	$ 3,680	$ 4,230	$ 1,981	88.1%
Net Appropriations Spent	**$ 27,153**	**$ 29,960**	**$ 28,924**	**$ 29,075**	**$28,721**	**$ 1,568**	5.8%
Statutory Transfers Out							
Legislatively Required Transfers	$ 2,735	$ 1,712	$ 1,067	$ 1,509	$ 2,065	$ (670)	-24.5%
Transfers Payable at FY End	$ -	$ 185	$ 940	$ 890	$ -	$ -	na
Debt Service on Pension Obligation Bonds	$ 467	$ 466	$ 564	$ 1,667	$ 1,605	$ 1,138	243.7%
Debt Service Transfers for Capital Projects**	$ -	$ 636	$ 670	$ 540	$ 563	$ 563	na
Debt Service on FY2010 Medicaid Borrowing	$ -	$ -	$ 63	$ 189	$ -	$ -	na
Interfund Borrowing Repayments	$ -	$ -	$ -	$ 10	$ 623	$ 623	na
Interest on Short Term Borrowing***	$ 3	$ 24	$ 1,026	$ 22	$ -	$ (3)	-100.0%
Total Transfers Out	**$ 3,205**	**$ 3,023**	**$ 4,330**	**$ 4,827**	**$ 4,856**	**$ 1,651**	51.5%
Total Expenditures	**$ 30,358**	**$ 32,983**	**$ 33,254**	**$ 33,902**	**$33,577**	**$ 3,219**	**10.6%**

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

**FY2008 debt service transfers for capital projects are included in legislatively required transfers.

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

Source: Illinois State FY2010 Budget, p. 2-12; Illinois State FY2011 Budget, p. 2-10; State of Illinois, FY2012 Budget Review, Presentation to Rating Agencies, August 10, 2011; email communication between the Civic Federation and the Governor's Office of Management and Budget, August 24, 2011.

BUDGET DEFICIT, UNPAID BILLS AND OTHER LIABILITIES

The total General Funds deficit is expected to increase to $5.0 billion in FY2012 from $4.6 billion in FY2011. The total deficit consists of the operating deficit and the accumulated deficit from prior years.

Largely due to the income tax increase that took effect in January 2011, the State's operating deficit is expected to shrink to $454 million at the end of FY2012 from $3.9 billion at the end of FY2011. However, FY2012 costs are understated because appropriations do not cover the full cost of the Medicaid program.[125] The Medicaid program is underfunded by as much as $1.7 billion. If Medicaid were fully funded in FY2012, the operating deficit would increase by roughly $850 million because half of the additional cost would be reimbursed by the federal government.

In addition, FY2012 budgeted revenues increase by approximately $476.1 million because the State plans to divert less revenue to pay down unpaid business income tax refunds than required under a statutory formula.[126]

As shown in the table below, FY2011 preliminary results include an operating surplus after borrowing of $1.5 billion. The enacted FY2012 budget does not include additional borrowing for operations.

State of Illinois General Funds
Budget Plan: FY2011-FY2012 (in $ millions)

	FY2011 Preliminary Results	FY2012 Enacted	$ Change	% Change
Revenues and Transfers In				
State Revenues	$ 22,920	$ 26,989	$ 4,069	17.8%
Federal Revenues	$ 5,386	$ 4,325	$ (1,061)	-19.7%
Subtotal Revenues	$ 28,306	$ 31,314	$ 3,008	10.6%
Statutory Transfers In	$ 1,685	$ 1,810	$ 125	7.4%
Total Revenues and Transfers In	**$ 29,991**	**$ 33,124**	**$ 3,133**	**10.4%**
Expenditures and Transfers Out				
Net Agency Appropriations	$ 25,395	$ 24,491	$ (904)	-3.6%
Pension Contributions	$ 3,680	$ 4,230	$ 550	14.9%
Subtotal Expenditures	$ 29,075	$ 28,721	$ (354)	-1.2%
Statutory Transfers Out	$ 4,827	$ 4,857	$ 30	0.6%
Total Expenditures and Transfers Out	**$ 33,902**	**$ 33,578**	**$ (324)**	**-1.0%**
Operating Surplus (Deficit)	**$ (3,911)**	**$ (454)**	**$ 3,457**	**-88.4%**
Borrowing for Operations	$ 5,426	$ -	$ (5,426)	-100.0%
Operating Surplus (Deficit) After Borrowing	$ 1,515	$ (454)	$ (1,969)	-130.0%
Accumulated Deficit From Prior Years	$ (6,094)	$ (4,579)	$ 1,515	-24.9%
Total Surplus (Deficit)	**$ (4,579)**	**$ (5,033)**	**$ (454)**	**9.9%**

Source: State of Illinois, *Fiscal Year 2012 Budget Review,* Presentation to Rating Agencies, August 10, 2011.

[125] See p. 25 for a discussion of Medicaid.
[126] See p. 19 for a discussion of income tax refunds.

One way that Illinois deals with its General Funds deficit is by delaying payments to vendors and local governments. The following table shows the State's General Funds backlog of unpaid bills, or accounts payable, at the end of FY2011 and under the enacted budget plan for FY2012. Preliminary results for FY2011 show that $1.2 billion of the $1.5 billion operating surplus was used to pay down a $6.2 billion backlog of unpaid bills, leaving a backlog of $5.0 billion. The budget plan for FY2012 shows an increase of $454 million in accounts payable, increasing the FY2012 year-end backlog to $5.5 billion.

State of Illinois General Funds Accounts Payable: FY2011-FY2012 (in $ millions)

	FY2011 Prelim. Results	FY2012 Enacted
Accounts Payable Beginning of Year	$ (6,224)	$ (5,048)
Paydown of Accounts Payable/(Increase in Accounts Payable)	$ 1,176	$ (454)
Accounts Payable End of Year	**$ (5,048)**	**$ (5,502)**

Source: State of Illinois, *Fiscal Year 2012 Budget Review,* Presentation to Rating Agencies, August 10, 2011.

The accounts payable shown above do not include operating liabilities outside of the General Funds. The next table provides estimates of business income tax refunds and Medicaid and employee health insurance bills owed by the State at the end of FY2011 and FY2012.

State of Illinois Payment Backlog Outside of General Funds: Year End FY2011 and FY2012 (in $ millions)

Category	FY2011 Estimated	FY2012 Projected
Income Tax Refunds	$ (646)	$ (594)
Medicaid Bills*	$ (300)	$ (2,400)
Employee Group Health Bills**	$ (1,200)	$ (1,200)
Total	**$ (2,146)**	**$ (4,194)**

*The Medicaid projection for FY2012 assumes no reduction in reimbursement rates for medical services providers.

**The FY2012 backlog of employee group health bills is based on the assumption that FY2012 appropriations will cover annual costs.

Source: Communication between the Civic Federation and the Department of Revenue, September 1, 2011; Communication between the Civic Federation and the Department of Healthcare and Family Services, August 25, 2011 and September 2, 2011.

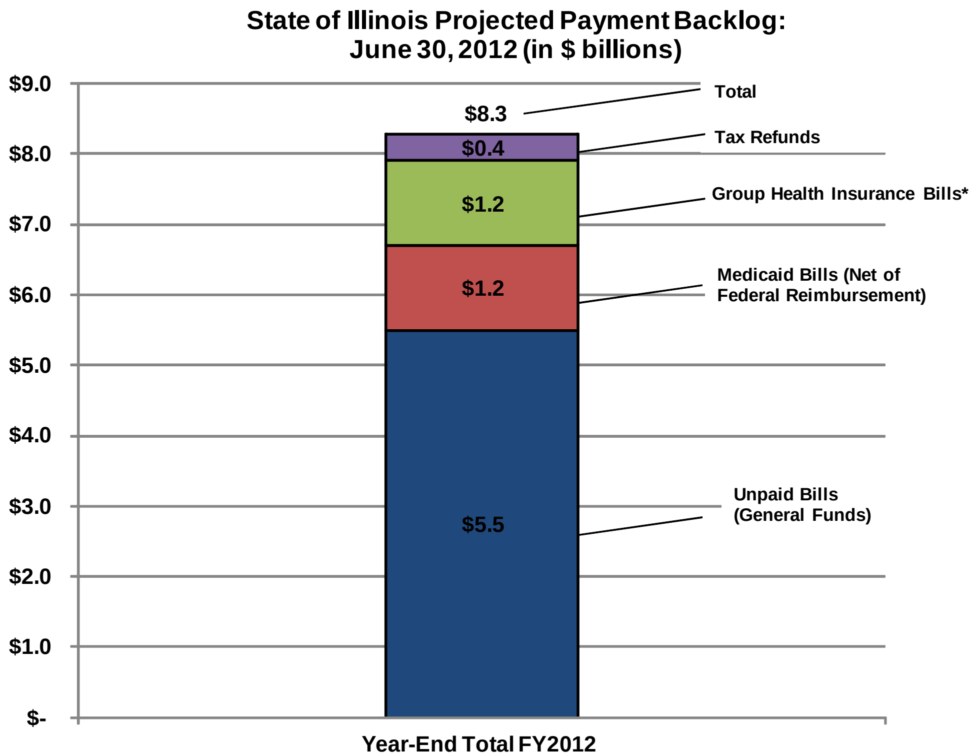
As discussed earlier in this report,[127] the FY2012 General Funds appropriation for employee group health insurance was intended to cover annual costs of the program and leave the backlog of unpaid health insurance claims unchanged at roughly $1.2 billion. However, FY2012 costs for the program are uncertain because of a dispute over the awarding of health insurance contracts; as a result, a projection of unpaid health claims at the end of FY2012 was not available from state officials. If unpaid group health claims remained unchanged at the end of FY2012, total non-General Funds liabilities would be approximately $4.2 billion.

The General Funds cost of paying down these liabilities would be less than $4.2 billion. In the case of Medicaid bills, approximately 50% of state expenditures are reimbursed by the federal government, resulting in a net state cost after reimbursement of $1.2 billion. In addition, a

[127] See p. 31 for a discussion of employee group health insurance.

portion of business income tax refunds are paid from Personal Property Replacement Taxes, which are deposited into an account outside of the General Funds.[128] The corporate income tax refund backlog at the end of FY2012 is projected to be roughly $386 million.[129] Thus, the General Funds cost of paying down the tax refunds, Medicaid bills and employee group health bills would be approximately $2.8 billion.

The next chart shows the General Funds cost of paying down the total projected payment backlog at the end of FY2012.



*The FY2012 backlog of employee group health bills is based on the assumption that FY2012 appropriations will cover annual costs.
Source: Communication between the Civic Federation and the Department of Revenue, September 1, 2011 and September 20, 2011; Communication between the Civic Federation and the Department of Healthcare and Family Services, August 25, 2011 and September 2, 2011; Source: State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011.

[128] The Personal Property Replacement Tax is an additional income tax on corporations, subchapter S corporations, partnerships and other business entities. The replacement tax is collected by the State and paid to local governments to replace money that was lost by local governments when their power to impose personal property taxes on businesses was rescinded pursuant to the 1970 Illinois Constitution.
[129] Communication between the Civic Federation and the Department of Revenue, September 20, 2011.

DEBT TRENDS

The FY2012 enacted budget did not include authorization for additional borrowing for operations or an increase in the State's authorization to issue capital or special purpose debt. This marks the first time in the last three fiscal years that the State has not depended on debt to fund its annual operations. This section examines the increase in the State's total debt burden due to the increased reliance on borrowing to pay for pensions and ongoing borrowing for capital purposes.

Borrowing for Operations

The State borrowed a total of $12.1 billion to pay for General Funds operations between FY2009 and FY2011. The total borrowing for operations excludes short-term borrowing that was repaid in the same fiscal year that it was borrowed.[130] Although some of the amounts were repaid within that time period, the total includes all borrowings that were used in one fiscal year and paid back with resources from another.

The largest portion of the State's borrowing for operations is attributable to the Pension Obligation Bonds (POB) sold in FY2010 and FY2011, which totaled $7.2 billion.[131] The proceeds from these bonds were used to make the State's annual General Funds contribution to its pension funds and will be paid back over the next eight fiscal years. The State has also relied on short-term failure of revenue borrowing, interfund borrowing and other debt to fund ongoing operations over the past three fiscal years.

The Governor's proposed FY2012 budget relied heavily on the issuance of $8.75 billion in General Obligation (GO) Restructuring Bonds to support General Funds operations and to pay down a portion of the State's backlog of bills. Approximately $1.5 billion of the GO Restructuring Bonds would have been used for FY2012 General Funds operations. However, the budget passed by the General Assembly did not include authorization for this borrowing.

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[130] See the **Short-Term Debt** discussion on p. 6.
[131] See the discussion of **General Obligation and Revenue Bonds** on p. 2 for more details regarding the State's outstanding POBs.

The following chart shows total borrowing for operations from FY2009 through the enacted FY2012 budget.

State of Illinois Borrowing for Operations FY2009 to FY2012 (in $ millions)						
Type of Debt	**FY2009 Actual**	**FY2010 Actual**	**FY2011 Actual**	**FY2012 Rec.**	**FY2012 Enacted**	**Total**
Pension Bonds	$ -	$ 3,466	$ 3,680	$ -	$ -	$ 7,146
Interfund Borrowing	$ -	$ 276	$ 762		$ -	$ 1,038
Railsplitter	$ -	$ -	$ 1,250	$ -	$ -	$ 1,250
Short-Term Failure of Revenue Borrowing	$1,000	$ -	$ -	$ -		$ 1,000
GO Medicaid Bonds		$ 250				$ 250
GO Restructuring Bonds	$ -	$ -	$ -	$ 1,450	$ -	$ 1,450
Total Borrowing for Operations	**$ 1,000**	**$ 3,992**	**$ 5,692**	**$ 1,450**	**$ -**	**$ 12,134**

Source: Source: State of Illinois, Fiscal Year 2012 Budget Review, *Presentation to Rating Agencies*, August 10, 2011, p. 2; Illinois State Budgets FY2012, FY2011.

The State borrowed from its Special Funds through interfund borrowing in FY2010 and FY2011. The State has in excess of 600 Special Funds that are intended for designated purposes outside of the General Funds. Borrowing from these accounts allows the State to use cash balances to pay for its General Funds operations. These borrowings are repaid out of subsequent year General Funds resources.

In FY2010 the State transferred $276 million from the Budget Stabilization Fund to its General Funds. Withdrawals from the Budget Stabilization Fund are required to be repaid before the end of each fiscal year. However, due to cash flow issues the transfer from FY2010 was not repaid until FY2011. The State transferred the same amount, $276 million, from the Budget Stabilization Fund in FY2011[132] and did not repay it by the end of the fiscal year. The transfer will be paid using FY2012 resources.

The remaining FY2011 interfund borrowing was authorized under the Emergency Budget Act of FY2011. The bill allowed the Governor to transfer funds from Special Funds to pay for General Funds appropriations for up to 18 months. The legislation created an irrevocable continuing appropriation to repay any transfers from General Funds in the future.[133] At the time the budget was enacted for FY2011, the State projected it would borrow $964 million through from the Special Funds.[134] However, the State only borrowed a total of $496 million from the State's Special Funds in FY2011, of which $486 million from 170 funds remains outstanding. The State plans to repay $347 million in FY2012 and $139 million in FY2013.[135]

The Emergency Budget Act of FY2011 also established the Railsplitter Tobacco Settlement Authority.[136] This new bonding authority was authorized to sell a portion of the future revenues due to the Tobacco Settlement Fund. The State receives annual revenues to this fund from the settlement of its lawsuit against the tobacco industry. Illinois received a total of $9.1 billion in

[132] Public Act 96-0958.
[133] Public Act 96-0958.
[134] State of Illinois, $1.3 Billion General Obligation Notes, *Official Statement*, July 12, 2010, p. 26.
[135] State of Illinois, Fiscal Year 2012 Budget Review, Presentation to Rating Agencies, August 10, 2011, p. 6, note 2.
[136] Public Act 96-0958.

1998 to settle its part of a multistate civic liabilities lawsuit against the tobacco industry.[137] Under the agreement, the State will receive annual installment payments from cigarette producers through 2025. The State estimates the payment for FY2011 at $324 million, which is in line with the average payment the State has received in recent years.[138]

The Railsplitter Authority was authorized to sell up to $1.75 billion in debt secured by these payments but only issued $1.5 billion in December 2010. A total of $1.3 billion of the proceeds were transferred to the General Funds to pay for operations. The bonds (also referred to as revenue notes) will be repaid over the next 19 years. The structure of the authority shelters the State from the need to pledge General Fund revenues in support of the sale of these bonds. Instead, the State pledged roughly half of its annual settlement payments to fund the debt service owed on these bonds.

Tobacco settlement payments to the State are deposited in the Tobacco Settlement Recovery Fund and included as appropriations of Other State Funds in the annual budget. The bonding authority is also authorized to deposit funds into the Tobacco Settlement Residual Account to pay for expenditures previously funded by the tobacco settlements from FY2011 through FY2013. If the current balances of the Tobacco Settlement Recovery Fund run out in future years and additional funds from the bond sale are not made available, annual appropriations previously funded by the tobacco settlement payments will need to receive funding from General Funds, establish a new revenue source or be eliminated entirely.

In March 2010 the State also approved the sale of $250 million in special purpose GO debt to fund Medicaid payments through the Healthcare Provider Relief Fund.[139] This new borrowing authority was used to leverage enhanced federal matching and decrease the payment cycle of outstanding Medicaid bills. The debt was issued on April 1, 2010 and repaid by March 31, 2011.

General Obligation and Revenue Bonds

Under the General Obligation Bond Act, the State is authorized to issue General Obligation Bonds (GO Bonds) to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[140] GO Bonds are guaranteed by a pledge of the full faith and credit of the State, which is a legally binding pledge to pay both principal and interest on these loans as required by the bond agreements prior to any other use of state funds.

The State appropriated a total of $17.1 billion in capital projects to be funded by borrowing in FY2010, of which $13.5 billion were new appropriations.[141] As part of the capital budget approved by the Governor and General Assembly in FY2010, the State initially approved the sale of $5.8 billion in new GO Bonds to support capital projects. The total capital bond authority was increased again by an additional $4.2 billion on January 13, 2011.[142]

[137] Illinois Economic and Fiscal Commission, *Illinois Cigarette Tax and Tobacco Settlement*, November 2002, p. 15. http://www.ilga.gov/commission/cgfa2006/Upload/IllinoisCigaretteTax.pdf (last visited on November 8, 2010)
[138] Illinois State FY2011 Budget, p. 2-28.
[139] Public Act 96-885
[140] 30 ILCS 330/1 (2001).
[141] Commission on Government Forecasting and Accountability, *2011 Capital Plan*, April 2010, p. 5.
[142] Public Act 1554.

GO debt issued since the start of the capital program in FY2010 totaled $2.7 billion by the end of FY2011. The Governor's FY2012 budget proposed that the State issue an additional $1.5 billion in capital GO Bonds in FY2012.[143] At the end of FY2011, the State had a total of $11.4 billion in GO capital bonds outstanding.[144]

Illinois also issued several types of revenue bonds to fund capital projects. Unlike GO Bonds, revenue bonds are not guaranteed by the full faith and credit of the State but rather pledge a portion of specific state revenues. The State currently pays directly for two types of revenue bonds. The Metropolitan Exposition and Auditorium Authorities bond program was supported by the issuance of Civic Center Bonds, the last of which were sold in 1992. The FY2012 budget shows $91.4 million in Civic Center Bonds outstanding and the State will make its final payment on this debt in FY2021.[145] Although originally financed in part by horseracing taxes, these bonds are now fully repaid by General Funds and are treated more like GO bonds.[146]

Build Illinois Bonds were first issued in 1985 and are backed by 3.8% of the State's sales tax receipts. The total bond authorization has been increased by the General Assembly on several occasions since Governor James Thompson's inaugural program in the late 1980s. Governor Quinn's proposed FY2012 budget estimated that the State would have issued $300 million in new Build Illinois debt by the end of FY2011 and proposes selling an additional $370 million to support capital projects in FY2012.[147] At the end of fiscal year 2011, the State had a total of $2.6 billion worth of outstanding Build Illinois bonds.[148]

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

The State receives General Funds relief for the debt service it owes on the $10 billion in POBs sold in FY2003 because of a reduction in the amount required to be paid into the retirement systems each year. Provisions of the authorization for the bonds allow the State to reduce the required annual pension contributions certified by the pension funds by the total annual debt service owed on the FY2003 POBs in each fiscal year.[149] This effectively pays for the pension bonds each year by freeing up General Funds resources that would otherwise be used to make required pension payments. The original FY2003 POBs were financed over 30 years and the last bonds will be retired in FY2033.

The debt service owed by the State on the FY2011 and FY2012 POBs is paid directly from General Funds without any offsetting reduction in pension contributions. The FY2010 POBs are

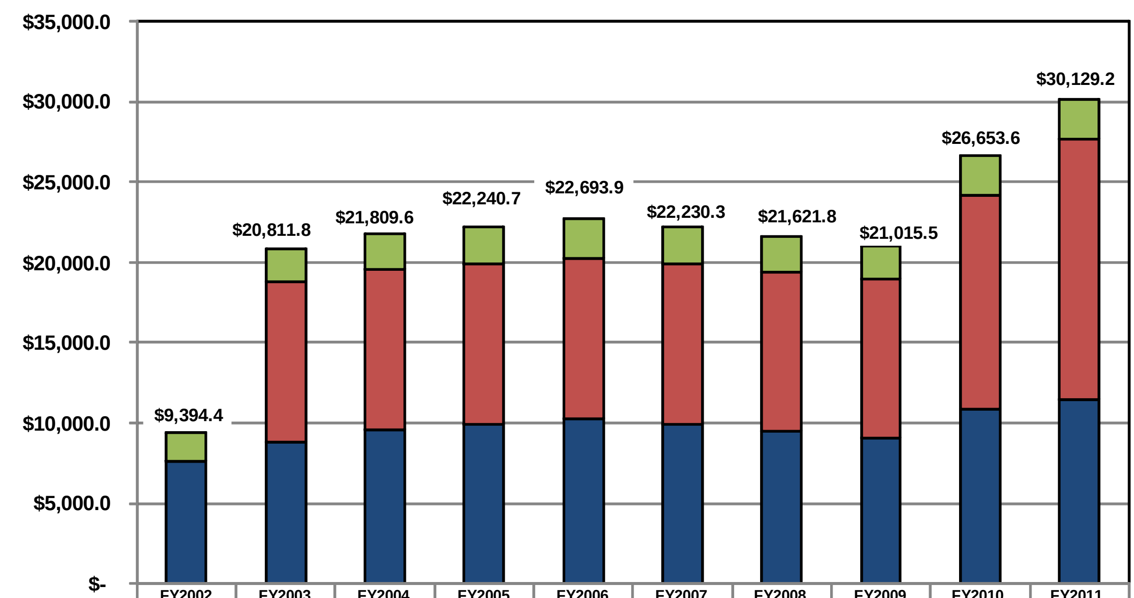
[143] Illinois State FY2012 Capital Budget, p. 104.
[144] Email communication between Civic Federation and Governor's Office of Management and Budget.
[145] Illinois State FY2012 Budget, p. 12-15.
[146] 30 ILCS 355, Metropolitan Civic Center Support Act, 1987.
[147] Illinois State FY2012 Budget, p. 12-11.
[148] Illinois State FY2010 Budget, p. 61.
[149] Public Acts 98-593, 94-004, 93-009.

retired over five years and the FY2011 series are eight-year bonds. The principal repayment on the FY2011 POBs is also delayed until after the majority the FY2010 bonds have been mostly prepaid. This back loading of the principal for the FY2011 POBs keeps the aggregate debt service owed on both series relatively level but greatly increases the total cost of the FY2011 Bonds. The FY2010 POBs totaled $3.5 billion and will cost a total of $382 million in interest over five years. The FY2011 bonds, which totaled $3.7 billion, will cost the State a total of $1.3 billion in total interest cost over eight years. Although the total principal borrowed only increased by $234 million, or 6.8%, the State will pay $897.5 million more in interest for the FY2011 bonds, or a 234.8% increase over the total interest cost for the FY2010 bonds.

At the end of FY2011, the State had a total of $16.3 billion in outstanding POBs.

State debt totaled $30.3 billion at the end of FY2011, an increase of $20.9 billion or 222.1% from FY2002, which was prior to the issuance of the first POBs. Since FY2009, before the State's most recent two POB issuances, total State debt has grown by 9.2 billion or 44.0%. The following chart shows the total debt increase for all GO bonds and revenue bonds over the last 10 fiscal years.

State of Illinois: Total Bonded Debt FY2002-FY2011
(in $ millions)



	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Total Existing Debt	$9,394.4	$20,811.8	$21,809.6	$22,240.7	$22,693.9	$22,230.3	$21,621.8	$21,015.5	$26,653.6	$30,129.2
Build Illinois/Civic Center	$1,764.5	$1,999.2	$2,253.3	$2,347.7	$2,442.5	$2,304.6	$2,208.9	$2,063.7	$2,443.6	$2,427.5
Pension Bonds	$-	$10,000.0	$10,000.0	$10,000.0	$10,000.0	$10,000.0	$9,950.0	$9,900.0	$13,316.0	$16,272.8
GO Capital Bonds	$7,629.9	$8,812.6	$9,556.3	$9,893.0	$10,251.4	$9,925.7	$9,462.9	$9,051.8	$10,894.0	$11,428.9

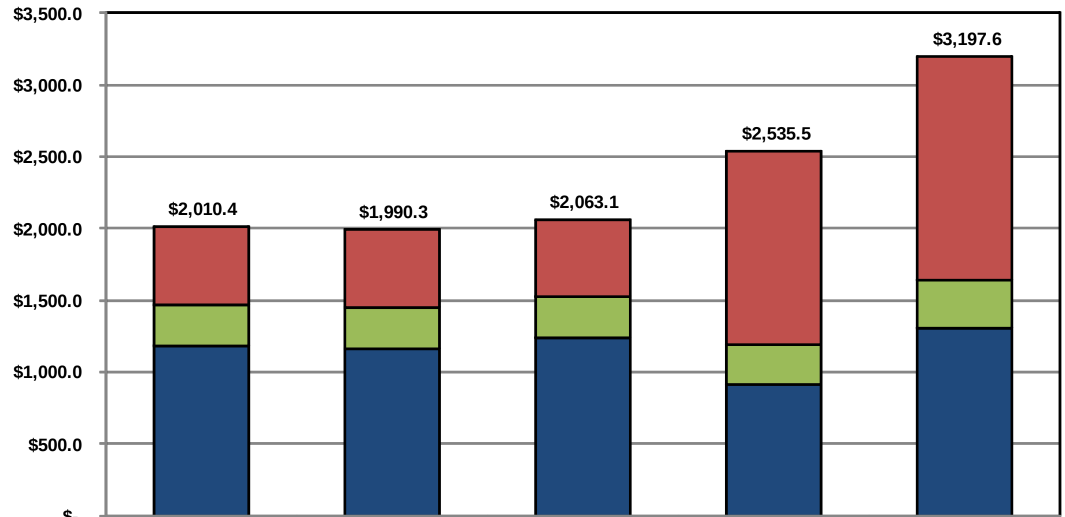
Source: Illinois State Budgets FY2005-FY2012; Email communication between Civic Federation and Governor's Office of Management and Budget.

Debt Service

The State's debt service schedule sets forth the principal and interest amounts due for outstanding bonds on an annual basis. In FY2012, the State estimates its required debt payments will total $3.2 billion for all outstanding GO Bonds, POBs and revenue bonds for which it directly appropriates funds.[150] This amounts to an increase of $662.1 million, or 26.1%, from FY2011and a 59.1% increase since FY2008, totaling $1.2 billion in additional annual cost. Over the last 10 years, the largest increases to annual debt service came in FY2004, FY2011 and FY2012, which are years immediately following the sale of new POBs. Between FY2003 and FY2012, total debt service increases by $1.9 billion in FY2012, which represents a 155.8% rise in annual debt related costs over the last 10 years.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds and other capital bonds.

State of Illinois Total Capital Purpose and Pension Bonds Debt Service (Principal + Interest) FY2008-FY2012 (in $ millions)



	FY2008	FY2009	FY2010	FY2011	FY2012*
Total Debt Service	$2,010.4	$1,990.3	$2,063.1	$2,535.5	$3,197.6
Pension Bonds	$546.0	$544.0	$543.6	$1,344.4	$1,561.0
Build Illinois/Civic Center	$280.0	$286.0	$286.0	$280.0	$336.0
GO Capital Bonds	$1,184.4	$1,160.3	$1,233.6	$911.2	$1,300.6

*Projected
Source: Illinois State Budgets FY2009-FY2012 and email communication between Civic Federation staff and the the Governor's Office of Management and Budget, August 9, 2011.
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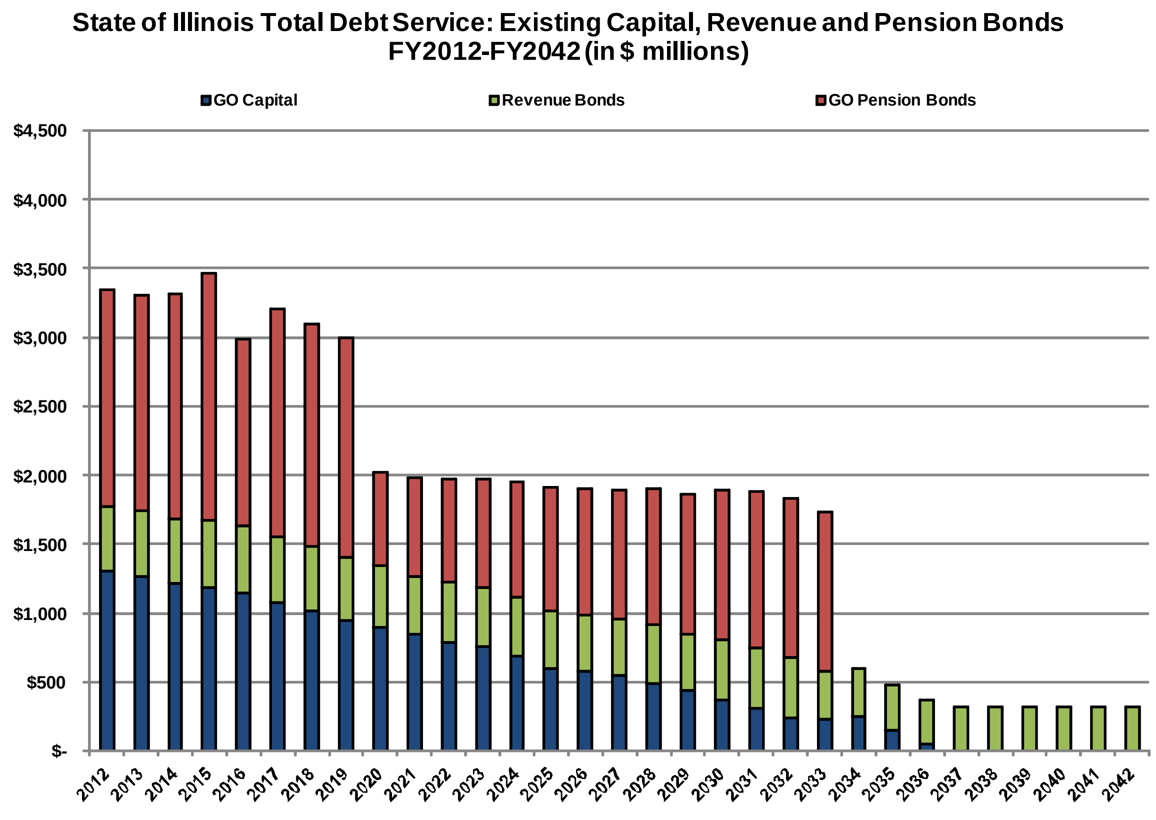
It should also be noted that the State does not pay for all of the debt service associated with the capital purpose GO bonds out of the General Funds. In FY2012 the State projects that its General Funds expense for capital bond debt service will total $563 million.[151] The remaining debt

[150] Email Communication between Civic Federation staff and Governor's Office of Management and Budget, August 9, 2011, see Appendix E for details.
[151] Illinois State FY2012 Budget, p. 2-13.

service for GO capital bonds is paid from the Capital Projects Fund, Common School Fund and the Road Fund, which have dedicated revenue sources outside the State's operating budget.

Between FY2010 and FY2033, the State of Illinois will pay a total of $25.8 billion in POB debt service, of which $9.5 billion is interest and $16.3 billion is principal for all pension related GO debt combined. It will also pay $17.3 billion in total debt service for the all outstanding GO bonds for capital purposes.[152] The capital GO debt service is made up of $5.9 billion in interest due on $11.4 billion of principal spread over the next 25 years.

The following chart shows total debt service owed by the State from FY2012 until all of the existing debt is retired in FY2042.



Source: Illinois State FY2012 Budget, pp. 12-12 to 12-15. Restructuring Bond Estimates from communication between Governor's Office of Management and Budget and Civic Federation Staff, January 10, 2011. See Appendix E for details.

Short-Term Debt

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. 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.[153]

[152] Illinois State FY202 Budget, p. 12-13.
[153] 30 ILCS 340 (2004).

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 that must be repaid entirely within the same budget cycle.[154] The State may also borrow up to 15% of the total appropriations for any year if there is a declared failure in revenue.[155] This type of short-term 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 will most likely continue to rely on short-term borrowing to finance part of the State's anticipated backlog of unpaid bills in FY2012. However, the enacted budget does not include any information on the type or amount of short-term debt that the State may issue in FY2012. The following chart shows the increased frequency and total amount of short-term certificates issued and repaid from FY2003 through FY2011.

Short-Term Debt Certificates Issued: FY2003- FY2011 (in $ millions)	
Year	**Total Short-Term Debt**
FY2003	$ 2,500.0
FY2004	$ 850.0
FY2005	$ 765.0
FY2006	$ 1,000.0
FY2007	$ 900.0
FY2008	$ 2,400.0
FY2009	$ 2,400.0
FY2010	$ 1,250.0
FY2011	$ 1,300.0

Source: Illinois State FY2012 Budget, p. 12-6.

In both FY2003 and FY2009, the State borrowed under the State's revenue failure provisions to carry forward portions of the State's deficits from one year to the next.

In December 2008, the State issued $1.4 billion in short-term debt to pay down some of the State's outstanding liabilities. These notes were due to be repaid by the end of FY2009. However, the State declared a failure of revenue for FY2009 as part of the FY2010 budget and sold $1 billion of new short-term notes shortly after repaying the December notes to carry forward the deficit to the new fiscal year. As part of the FY2010 budget, the State sold an additional $1.25 billion in short-term debt in August 2009. The combined total of $2.3 billion in outstanding short-term borrowing was repaid in FY2010. The July 2010 short-term notes totaling $1.3 billion were issued to pay down the liabilities carried forward from FY2010 to FY2011.

As mentioned in the **General Obligation and Revenue Bonds** section, the State sold $250 million of special purpose bonds that will be repaid within one year. Although this debt was

[154] 30 ILCS 340/1 (2004).
[155] 30 ILCS 340/1.1 (2004).

issued under the GO Bond Act and not the Short Term Borrowing Act, the bonds will be treated like a short-term issuance for failure of revenues, passing on liabilities from FY2010 to FY2011.

Bond Ratings

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

The State of Illinois' GO bond ratings have been lowered by each of the three major rating agencies since FY2009. The State's debt has been the second lowest rated among all states for two years, just one level above California. The following chart shows the ratings decline over the last three fiscal years.

State of Illinois General Obligation Bond Ratings

	Moody's Investors Services	Standard & Poor's	Fitch Ratings
FY2009	A1	AA-	A
FY2010	A2	A+	A
FY2011	A1	A+	A-

Source: Commission on Government Forecasting and Accountibility, *State of Illinois Budget Summary: Fiscal Year 2011*, p. 162; Illinois State FY2012 Budget, p. 12-2.

In downgrading the State's rating and future financial outlook, each agency has pointed to several of the same problems facing Illinois. The agencies look negatively on the State's poor cash position, or the lack of available revenue to pay its bills, the FY2010 and FY2011 budgets' reliance on one-time revenue sources to pay for ongoing operational expenses, the growing imbalance in the operating budget and the State's unfunded pension liabilities. The agencies' reports also explain that the long-term challenge of properly funding the retirement systems has placed an increasing burden on the State's current finances, as the required annual contribution must grow to make up for past underfunding and losses in the pension funds due to the recession.

CAPITAL BUDGET

The FY2012 capital budget marks the third year of the State's $31 billion *Illinois Jobs Now!* capital program. The State's annual capital budget, which is proposed and approved separately from the operating budget, increased by $2.2 billion for FY2012.[156]

This marks the first expansion of the current ongoing capital spending program since its inception in FY2010. The capital budget also included reauthorization of $22.8 billion in previously approved projects, bringing the total to $25.1 billion. Unlike the State's operating budget, which requires that all appropriated funds be spent in the same year they are approved, capital appropriations must be reauthorized over multiple years as planning, engineering and construction of capital investments commence.

Although the FY2012 capital budget includes a significant increase in capital spending, the enacted total is significantly less than the increase included in the Governor's recommended FY2012 capital budget. The total capital spending approved for FY2012 was $2.1 billion less than the total $27.1 billion in the Governor's recommended FY2012 capital budget.

The following chart compares the capital budget proposed by the Governor for FY2012 to the enacted capital budget.

State of Illinois FY2012 Capital Spending Authorization (in $ millions)

	FY2012 Recommended	FY2012 Enacted	$ Change	% Change
Reappropriation	$ 23,100.4	$ 22,839.3	$ (261.1)	-1.1%
New	$ 4,042.0	$ 2,220.7	$ (1,821.3)	-45.1%
Total	**$ 27,142.4**	**$ 25,060.0**	**$ (2,082.4)**	**-7.7%**

Source: Illinois State FY2012 Capital Budget p. 104; Email communication between Civic Federation staff and Governor's Office of Management and Budget regarding Public Act 97-0076.

The amount of capital spending reauthorized from previous years fell slightly due to some projects spending more of their existing appropriations before the end of FY2011 than was estimated in the Governor's capital budget. The more significant reduction in the FY2012 capital authorization was the $1.8 billion in new projects proposed by the Governor but omitted from the capital bill approved by the General Assembly.

The new spending in the enacted capital budget is almost entirely dedicated to additional transportation spending on roads, bridges, airports, rail and mass transit, totaling $2.15 billion of the approved spending.[157] Transportation spending makes up more than half of the total spending in the capital budget and consists almost entirely of broad grants given to the Illinois Department of Transportation that are later assigned to specific projects.

The remaining $57.4 million of the newly approved capital spending for FY2012 is spread out among 22 other line items in the budget, ranging from $80,000 for new state-wide snowmobile trails to $17.0 million for coal demonstration program grants.

[156] Public Act 97-0076.
[157] Email communication between Civic Federation staff and Governor's Office of Management and Budget regarding Public Act 97-0076.

No new revenue sources were passed to support the additional spending. The State relies heavily on the sale of bonds to fund the capital budget and also receives federal funding and some pay-as-you go funding from user fees, taxes and local government funds. Updated estimates of the funding for the enacted FY2012 budget are not yet available, but the Governor's FY2012 proposed budget estimated that the State would need to sell $16.0 billion in total capital bonds to support the program, or approximately 60% of the total funding. So far the State has only issued $2.7 billion in General Obligation (GO) Bonds to pay for capital projects since the capital program began in FY2010.[158]

In 2009 the State approved a package of revenue measures including: increasing taxes on alcoholic beverages, additional vehicle and license fees, legalizing and taxing video poker, leasing out the management of the state lottery and extending the sales tax to candy, sweetened beverages and some hygiene products.[159] These new revenues were expected to total $943 million to $1.2 billion annually to support the new capital borrowing associated with the *Illinois Jobs Now!* capital program.[160]

The proposed FY2012 capital budget did not include details of the actual revenues earned from these sources. Until recently the capital bills were the subject of a lawsuit. The complaint claimed that the disparate revenue sources used to fund the program violated the State's single subject rule, which requires all legislation to be regarding the same topic. The Illinois Supreme Court ruled in favor of the State and upheld the law in July 2011. Due to administrative delays, State Gaming Board also has yet to begin licensing video poker. More than 60 county and local governments have passed measures to prohibit the expansion of video gaming in their jurisdictions, which also threatens the potential revenues from the capital program's largest source. This reduction in participating governments is expected to reduce video gaming proceeds to support the capital budget by between $68 million and $124 million annually.

[158] Illinois State FY2012 Budget, p. 12-11.
[159] Public Act 96-0034
[160] Commission on Government Forecasting and Accountability, Illinois FY2012 Capital Plan, pp. 8, 9.

APPENDIX A: FY2012 BUDGET RESOLUTIONS

The following table shows budget resolutions for FY2012 adopted by the Illinois House and the Illinois Senate.

State of Illinois Budget Resolutions for FY2012

Bill Number	Description	Date Adopted
HR 110	House Revenue Estimate	March 8, 2011
HR 156	Appropriations Alllocations to House Committees	March 17, 2011
SJR 29	Senate Revenue Estimate	March 17, 2011
HR 158	Use of Excess Revenues	March 30, 2011

Source: Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary, Fiscal Year 2012* , August 2011, pp. 10-12; Civic Federation research.

APPENDIX B: MAJOR BUDGET BILLS ENACTED FOR FY2012

The following table lists major budget bills for FY2012 passed by the General Assembly and signed by Governor Pat Quinn. The table also indicates legislation vetoed by the Governor, either by reducing appropriation amounts or eliminating specific line items.

State of Illinois Major Budget Bills for FY2012			
Bill Number	**Description**	**Public Act Number**	**Governor's Vetoes**
HB 116	State Universities Retirement System Appropriation	97-0054	
HB 117	Debt Service Appropriation	97-0055	Line Item
HB 123	General Services Appropriation[1]	97-0056	Line Item
HB 124	General Services Appropriation[2]	97-0057	
HB 132	Group Health Insurance Appropriation	97-0058	Line Item
HB 326	State Board of Education Appropriation	97-0059	
HB 327	Elementary and Secondary Education Appropriation	97-0060	Line Item and Reduction
HB 2107	Educational Labor Relations Board Appropriation	97-0061	
HB 2109	Illinois Environmental Protection Agency Appropriation[3]	97-0062	
HB 2165	Public Safety Appropriation[4]	97-0063	
HB 2167	Capital Development Board Appropriation[5]	97-0064	
HB 2168	Public Safety Appropriation[6]	97-0065	
HB 3639	Teachers' Retirement System Appropriation	97-0067	
HB 3697	Appropriation for State Employees', Judges' and General Assembly Retirement Systems	97-0068	
HB 3700	Higher Education Appropriation[7]	97-0069	
HB 3717	Human Services Appropriation[8]	97-0070	Reduction
SB 335	Budget Implementation	97-0072	
SB 1633	Budget Implementation	97-0044	
SB 2172	Lapse Period Extension	97-0075	

[1]Attorney General, Comptroller, Legislative Support Groups, Architect of the Capitol, Joint Committee on Administrative Rules, Supreme Court and Treasurer.

[2]Agriculture, Commerce and Economic Opportunity, Court of Claims, State Board of Elections, Employment Security, Governor, Office of Management and Budget, Natural Resources, Revenue and Teachers' Retirement

[3]Also Illinois Gaming Board, Insurance, Financial and Professional Regulation and Illinois Racing Board.

[4]State Appellate Defender, Illinois Emergency Management Agency, Labor, Military Affairs, Prisoner Review Board and Sports Facilities Authority.

[5]Also Illlinois Power Agency, Metropolitan Pier and Exposition Authority, State Fire Marshal and Workers' Compensation Commission.

[6]Corrections, Juvenile Justice, State Police and Illinois Department of Transportation.

[7]Universities, Illinois Community College Board, Illinois Board of Higher Education, State Universities Civil Service System and Illinois Student Assistance Commission.

[8]Aging, Children and Family Services, Healthcare and Family Services, Human Rights Commission, Human Services, Public Health and Veterans' Affairs.

Source: Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary, Fiscal Year 2012* , August 2011, pp. 10-12; Civic Federation research.

APPENDIX C: STATE OF ILLINOIS AGENCIES BY PURPOSE

This appendix presents the State's grouping of agencies according to principal spending activities.[161]

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

Education
Illinois State Board of Education
Teachers' Retirement System
Illinois Board of Higher Education
Public Universities
Illinois Community College Board
Illinois Student Assistance Commission
Illinois Mathematics and Science Academy
State Universities Retirement System
State Universities Civil Service System

Government Services
Office of the Governor
Office of the Lieutenant Governor
Office of the Attorney General
Office of the Secretary of State
Office of the State Comptroller
Office of the State Treasurer
Judges' Retirement System
Judicial Inquiry Board
Office of the State Appellate Defender
Office of the State's Attorneys Appellate Prosecutor
Supreme Court and Illinois Court System
Supreme Court Historical Preservation Commission
Office of the Auditor General
General Assembly

[161] Illinois State FY2012 Budget, *Table of Contents*.

General Assembly Retirement System
Commission on Government Forecasting and Accountability
Joint Committee on Administrative Rules
Legislative Audit Commission
Legislative Ethics Commission
Legislative Information System
Legislative Printing Unit
Legislative Reference Bureau
Legislative Research Unit
Office of the Architect of the Capitol
Civil Service Commission
Court of Claims
State Board of Elections
Executive Ethics Commission
Procurement Policy Board
Drycleaner Environmental Response Trust Fund Council
Office of the Executive Inspector General
Governor's Office of Management and Budget
Capital Development Board
Department of Central Management Services
Illinois Gaming Board
State Employees' Retirement System

Economic Development
Department of Agriculture
Department of Commerce and Economic Opportunity
East St. Louis Financial Advisory Authority
Illinois Commerce Commission
Illinois Power Agency
Illinois Finance Authority
Illinois Sports Facilities Authority
Department of Labor
Metropolitan Pier and Exposition Authority
Southwestern Illinois Development Authority
Department of Transportation
Upper Illinois River Valley Development Authority

Public Safety and Regulation
Department of Corrections
Environmental Protection Agency
Department of Financial and Professional Regulation
Illinois Criminal Justice Information Authority
Illinois Educational Labor Relations Board
Illinois Emergency Management Agency
Illinois Labor Relations Board
Illinois Violence Prevention Authority
Illinois Workers' Compensation Commission
Department of Insurance
Law Enforcement Training Standards Board

Department of Military Affairs
Prisoner Review Board
Property Tax Appeal Board
Office of the State Fire Marshal
Department of State Police
State Police Merit Board

Quality of Life
Illinois Arts Council
Illinois Historic Preservation Agency
Department of Natural Resources

APPENDIX D: AGENCIES UNDER THE GOVERNOR

The following agencies are considered to be under the Governor's Office for purposes of the headcount numbers provided in the FY2012 budget.[162]

Department of Human Services
Department of Corrections
Department of Transportation
Department of State Police
Department of Children and Family Services
Department of Healthcare and Family Services
Department of Revenue
Department of Employment Security
Department of Central Management Services
Department of Juvenile Justice
Department of Natural Resources
Department of Veterans' Affairs
Department of Public Health
Illinois Environmental Protection Agency
Department of Financial and Professional Regulation
State Board of Education
Department of Agriculture
Department of Commerce and Economic Opportunity
Department of Insurance
Illinois Commerce Commission
Illinois Student Assistance Commission
Department of Military Affairs
Illinois Emergency Management Agency
Illinois Gaming Board
Illinois Historic Preservation Agency
Workers' Compensation Commission
Department of Human Rights
Department on Aging
Office of the State Fire Marshal
Capital Development Board
Illinois Guardianship and Advocacy Commission
Office of the Governor
Department of Labor
Illinois Criminal Justice Information Authority
Illinois Community College Board
Governor's Office of Management and Budget
Human Rights Commission
Board of Higher Education
Prisoner Review Board
Illinois Labor Relations Board
Property Tax Appeal Board

[162] Email communication between the Civic Federation and the Governor's Office of Management and Budget, April 22, 2011.

Illinois Arts Council
Illinois Law Enforcement Training and Standards Board
Illinois Educational Labor Relations Board
Illinois Racing Board
Illinois Violence Prevention Authority
Illinois Council on Developmental Disabilities
Illinois State Police Merit Board
Civic Service Commission
Illinois Deaf and Hard of Hearing Commission
Procurement Policy Board
Illinois Power Agency
State Employees' Retirement System

APPENDIX E: TOTAL DEBT SERVICE

The following chart shows total debt service owed by the State of Illinois on all outstanding GO Bonds and Revenue Bonds as of June 30, 2011.

State of Illinois Total Existing Annual Debt Serivce (in $ thousands)				
Fiscal Year	GO Capital	Revenue Bonds	GO Pension Bonds	Total Debt Service
2012	$ 1,300,618	$ 469,707	$ 1,578,887	**$ 3,349,212**
2013	$ 1,262,164	$ 480,116	$ 1,560,951	**$ 3,303,230**
2014	$ 1,213,847	$ 464,521	$ 1,634,080	**$ 3,312,448**
2015	$ 1,181,732	$ 486,684	$ 1,797,883	**$ 3,466,299**
2016	$ 1,140,330	$ 491,595	$ 1,356,454	**$ 2,988,378**
2017	$ 1,075,502	$ 480,729	$ 1,647,338	**$ 3,203,569**
2018	$ 1,011,420	$ 471,460	$ 1,618,616	**$ 3,101,495**
2019	$ 945,697	$ 461,273	$ 1,586,106	**$ 2,993,076**
2020	$ 895,193	$ 453,025	$ 674,550	**$ 2,022,768**
2021	$ 844,943	$ 423,159	$ 713,413	**$ 1,981,514**
2022	$ 783,085	$ 439,589	$ 749,800	**$ 1,972,474**
2023	$ 752,495	$ 436,139	$ 783,713	**$ 1,972,346**
2024	$ 683,595	$ 427,947	$ 840,150	**$ 1,951,692**
2025	$ 594,400	$ 426,406	$ 892,200	**$ 1,913,006**
2026	$ 581,456	$ 407,230	$ 915,425	**$ 1,904,110**
2027	$ 548,545	$ 410,440	$ 936,100	**$ 1,895,085**
2028	$ 492,555	$ 425,878	$ 979,225	**$ 1,897,658**
2029	$ 440,198	$ 406,230	$ 1,018,525	**$ 1,864,953**
2030	$ 368,192	$ 440,243	$ 1,079,000	**$ 1,887,435**
2031	$ 309,655	$ 438,798	$ 1,134,375	**$ 1,882,827**
2032	$ 239,106	$ 436,543	$ 1,159,650	**$ 1,835,298**
2033	$ 228,607	$ 346,906	$ 1,156,100	**$ 1,731,613**
2034	$ 250,326	$ 345,779	0	**$ 596,105**
2035	$ 153,691	$ 322,572	$ -	**$ 476,263**
2036	$ 49,137	$ 322,572	$ -	**$ 371,709**
2037	$ -	$ 322,572	$ -	**$ 322,572**
2038	$ -	$ 322,572	$ -	**$ 322,572**
2039	$ -	$ 322,572	$ -	**$ 322,572**
2040	$ -	$ 322,572	$ -	**$ 322,572**
2041	$ -	$ 322,572	$ -	**$ 322,572**
2042	$ -	$ 322,576	$ -	**$ 322,576**
Total	**$ 17,346,487**	**$ 12,650,978**	**$ 25,812,539**	**$ 55,810,004**

Source: Totals as of June 30, 2011, Email communication between Civic Federation and Governors Office of Management and Budget, August 9, 2011 and September 12, 2011.