Civic Federation Position Statement
Governor Blagojevich's Proposed FY2005 State of Illinois Operating Budget
May 3, 2004

The Civic Federation **supports** many provisions in the Governor's proposed FY2005 budget:

- The Federation is pleased that Governor Blagojevich's proposed FY2005 budget for the State of Illinois does not contain any broad-based tax increases. The ability to maintain current tax rates is due in large part to a number of positive cost containment initiatives undertaken by the administration. A broad-based tax increase could jeopardize efforts to attract and maintain businesses and jobs in Illinois. A prerequisite to any broad based increases in State taxes should be a comprehensive review and determination that the State's current expenditures of $53.6 billion are being effectively and efficiently made. Such a review has not taken place.

- The Civic Federation supports granting the Governor short-term borrowing authority to pay vendors on time. Furthermore, we embrace the common sense logic of having the General Assembly link any proposed increase in spending to funding provisions to pay for those increases. The Federation is also pleased that the proposed budget controls expenditures through a reduction in the number of State employees by over 2,000, and generates additional efficiencies through merging and reorganizing State agencies. Finally, we endorse the Governor's proposal to increase the Rainy Day Fund. We would recommend, however, that such deposits to the Fund should be linked to revenues, not expenditures.

However, the budget proposal also contains a number of provisions that the Federation cannot support:

- The Federation **strongly opposes** closing the State's deficit by reducing funding for the State's pension obligations by $527 million to help fund the State's current operations. Failure to fund these obligations is a return to Illinois' earlier practice of deferring long-term obligations in the mistaken hope that such shortfalls could be afforded in the future. While the Civic Federation believes that the State's overall current debt burden remains manageable, we are concerned with the emerging trend to structure State debt service payments to reduce or eliminate current expenditure obligations. Furthermore, any savings from the ten billion dollar pension bond should be used to reduce pension obligations and not to support current operations. That was the purpose of the bond.

- Next, we caution the General Assembly and the Governor not to approve the proposed Early Retirement Initiative without a full public vetting of the costs and implementation details. The failure to take such a precaution resulted in an alarming $312 million underestimate in the funding of the State's FY2002 Early Retirement Initiative. The General Assembly must work with the Governor to correct this error. The State cannot afford to make a similar mistake again.

- Finally, while some of the Governor's proposals to close Corporate Tax "loopholes" can be achieved without causing economic uncertainties, a few of the Governor's proposals appear to represent fundamental changes in the State's corporate sales and income tax structure and require much more public disclosure to measure their economic impact and the validity of their assumed revenue benefits. We strongly urge the Governor and the legislature to hold full public hearings to evaluate the impact of these changes on the corporate tax structure before adoption. We are particularly concerned about three of the more complex proposals which represent fundamental changes: Using Straight Line Instead of Accelerated Depreciation, Extending the Sales Tax to Licensed Software, and Applying a Destination Apportionment Rule to Service Companies.

The Federation believes that **preferable methods** for closing the budget deficit would include:

- Obtaining $60 million by eliminating the State's responsibility for paying the employee pension contribution for unionized employees.

- Building on the Governor's FY2005 spending cuts of $500 million by reducing State spending across the board by an additional 1.6% to generate $689 million in savings and permit full funding of the FY2005 pension contributions as well as allow additional time to evaluate the impact and need for the three proposed tax changes listed above.

177 N. State Street, Suite 400 Chicago, Illinois 60601 ● Telephone (312) 201-9066 Fax (312) 201-9041 E-mail civicfed@civicfed.org