The Institute for Illinois' Fiscal Sustainability
AT THE CIVIC FEDERATION

State of Illinois Enacted Budget FY2013:

A Review of the Operating Budget for the Current Fiscal Year

October 8, 2012

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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 2013, which began on July 1, 2012 and ends on June 30, 2013. The $33.0 billion FY2013 operating budget reflects significant steps by the Governor and General Assembly to rein in the cost of Medicaid and retiree health insurance and to pay down the State's multibillion dollar backlog of unpaid bills.

Despite these difficult but necessary actions, Illinois' fiscal condition remains perilous. The General Assembly did not address the State's most pressing financial problem: its severely underfunded retirement systems. Due to inaction on pensions, the State's credit rating was downgraded by Standard & Poor's in August 2012. Illinois has the lowest credit rating of any state by Moody's Investors Service, which has also cited failure to implement lasting solutions to pension underfunding.

The State has other financial problems that cannot be ignored. The backlog of unpaid bills, although reduced, remains substantial. Only half a year of funding was approved for group health insurance for current employees and retirees, paving the way for an increase in payment delays if additional funding is not provided. Serious questions remain about the State's ability to achieve projected savings in the Medicaid program and to implement enacted changes in retiree health insurance
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The main findings of the analysis are the following:

- The General Funds budget for FY2013 is based on projected savings in the major spending areas of Medicaid and group health insurance, but it remains to be seen whether these savings can be realized;
  - The budget assumes Medicaid savings of approximately $1.4 billion in FY2013, but certain savings projections appear to be unrealistic and program reductions face resistance from legislators and recipients, making implementation difficult;
  - The budget assumes group health insurance savings of approximately $250 million, based partly on legislation that eliminates premium-free health insurance for retirees, but changes are currently tied up in the collective bargaining process;
- The FY2013 budget is incomplete because it only funds approximately half a year for group insurance and does not include $300 million of the resources needed for full funding of Medicaid costs;
- Unpaid General Funds bills and other liabilities such as deferred Medicaid bills and group health insurance claims are roughly estimated to decline by $1.3 billion from $8.9 billion at the end of FY2012 to $7.6 billion at the end of FY2013;
- The FY2013 budget sets aside $264 million to pay down the backlog of General Funds bills not related to Medicaid and $500 million to pay down the backlog of Medicaid bills (which provides resources of $1 billion due to federal Medicaid reimbursements);
- Due to the large backlog of unpaid bills, the lapse period—the period of time after the end of the fiscal year during which next year's revenue can be used to pay this year's bills—was extended to six months from two months for the third consecutive year;
- Total pension-related payments, including contributions and bond payments, increase by $910 million, or 15.8%, to $6.65 billion in FY2013 from $5.74 billion in FY2012. Total pension-related payments represent 20.1% of General Funds expenditures in FY2013, up from 9.0% in FY2009.
- Net General Funds appropriations for agency operations decline by $1.3 billion, or 5.3%, from $23.7 billion in FY2012 to $22.4 billion in FY2013.
- Since the FY2013 budget was enacted, the Governor's Office has increased its General Funds revenues projection to $34.4 billion, which is $683 million more than the $33.7 billion projection agreed on by the General Assembly in March 2012.

BUDGET TIMELINE

The State of Illinois' budget for fiscal year 2013 was developed amid general recognition of the severity of the State's financial problems.[1] Despite a major income tax increase, the State still faced a mountain of unpaid bills accumulated during the national economic recession. Going forward, escalating pension and Medicaid costs were widely regarded as unsustainable in light of available resources.

After Governor Pat Quinn's budget address in February 2012, significant steps were taken to address a projected $2.7 billion Medicaid funding gap. Premium-free health insurance for all State retirees with at least 20 years of service was eliminated. The enacted budget provides for an estimated $1.3 billion reduction in the backlog of unpaid bills and other general operating fund liabilities.

The State's financial condition continues to be perilous, however. The General Assembly adjourned without passing major pension legislation. The backlog of bills, although reduced, remains substantial. Only half a year of funding was approved for group insurance, paving the way for a significant increase in payment delays if additional funding is not provided. Serious questions remain about the State's ability to achieve projected savings in the Medicaid program and implement enacted changes in retiree health insurance.

Governor's Three-Year Budget Projection—January 3, 2012

On January 3, 2012, Governor Quinn issued a three-year General Funds budget projection for FY2013 to FY2015.[2] The projection also included an update to the FY2012 budget after changes made during the General Assembly's fall veto session. It was the second three-year projection issued in advance of the Governor's annual budget recommendation under a law enacted in July 2010.[3]

The three-year projection showed moderate annual revenue growth in FY2013 and FY2014 and a significant decline in FY2015, when the State's income tax increase is scheduled to partially sunset halfway through the fiscal year.[4] The lack of substantial revenue growth and increase in pension-related costs were expected to put continued strain on the budget. To cope with the pressure, total agency operating budgets were cut in FY2013 and left flat in the next two years. Exceptions were education and Medicaid, which were held flat for all three years.

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

[2] Governor's Office of Management and Budget, *Three Year Budget Projection (General Funds), FY13-FY15*, January 3, 2012, http://www.state.il.us/budget/2012%20Three%20Year%20Projection.pdf (last visited on August 1, 2012). 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.

[3] Public Act 96-1354. The law requires the administration to submit an economic and fiscal policy report to the General Assembly, outlining the long-term economic and fiscal policy objectives of the State and the economic and fiscal policy intentions for the upcoming fiscal year and the next two fiscal years.

[4] Public Act 96-1496, enacted in January 2011, raised personal income tax rates from 3.0% to 5.0% and corporate income tax rates from 4.8% to 7.0%. Under the law, the personal income tax rate declines to 3.75% on January 1, 2015 and to 3.25% on January 1, 2025. The corporate rate declines to 5.25% on January 1, 2015 and returns to 4.8% on January 1, 2025. The State also collects a 2.5% Personal Property Replacement Tax on corporations.

Although Medicaid spending was left at the FY2012 level, the economic and fiscal policy report accompanying the projections acknowledged that the program had been significantly underfunded in FY2012. As a result, large but unspecified spending reductions would be needed to prevent growth in unpaid bills and unprecedented payment delays.

The economic and fiscal policy report stated that the Governor planned to convene a working group to stabilize the State's pension funds. It also recommended the use of borrowing to reduce the backlog of unpaid bills and other General Funds liabilities—estimated at approximately $7 billion as of December 2011.

The table below summarizes the Governor's three-year projection, including estimated results for FY2012 as of January 2012.

State of Illinois Governor's Three-Year General Funds Projection: FY2012-FY2015 (in $ millions)				
	FY2012	**FY2013**	**FY2014**	**FY2015**
Total Revenues	$ 33,141	$ 34,131	$ 34,975	$ 33,461
Total Expenditures	$ 33,647	$ 33,844	$ 34,176	$ 34,279
Operating Surplus/(Deficit)	**$ (506)**	**$ 287**	**$ 799**	**$ (818)**

Source: Governor's Office of Management and Budget, *Three Year Budget Projections (General Funds), FY13-FY15*, January 3, 2012.

On January 6, three days after the Governor issued his projection, Moody's Investors Service reduced Illinois' credit rating to the lowest among U.S. states.[5] The rating agency cited the State's failure to implement lasting solutions to pension underfunding and chronic bill payment delays.

Governor's FY2013 Budget Recommendation—February 22, 2012

On February 22, 2012, Governor Quinn presented his recommended operating budget for FY2013.[6] The Illinois Constitution requires that the Governor balance the proposed budget by recommending expenditures that do not exceed funds projected to be available.[7]

The $57.4 billion FY2013 budget, including proposed General Funds expenditures of $33.8 billion, resulted in a modest operating surplus, did not rely on borrowing and made the State's full statutorily required pension contributions. Proposed net agency appropriations (after subtracting out unspent appropriations[8]) were unchanged from a year before and were based on the closure of numerous state facilities, including two prisons. A modest projected increase in revenues—to $33.9 billion from $33.2 billion in FY2012—was devoted to funding statutorily required pension contributions.

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[5] Moody's Investors Service, *New Issue: Moody's Lowers State of Illinois' G.O. Rating to A2 from A1, Assigns A2 Rating to Planned $800 Million Issuance*, January 6, 2012.
[6] Illinois State FY2012 Budget, February 22, 2012, http://www.state.il.us/budget/FY2013/FY13OperatingBudget.pdf (last visited on August 1, 2012). For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2013 Recommended Operating and Capital Budgets: Analysis and Recommendations*, May 1, 2012, http://www.civicfed.org/iifs/publications/ILRecommendedBudgetAnalysisFY2013 (last visited on August 1, 2012).
[7] Illinois Constitution, Article VIII, Section 2(a).
[8] Appropriations remain unspent at the end of the year because expenses do not reach budgeted levels or insufficient funding is available.

In his budget address to the General Assembly, Governor Quinn focused on costs that were not reflected in the budget: unfunded pension liabilities and deferred Medicaid bills.[9] The Governor called for sweeping changes to the State's Medicaid program and pension systems in order to stabilize Illinois' finances, describing these changes as a "rendezvous with reality" after "decades of poor fiscal management, deferring bills to the future and empty promises." Specific plans were not presented, but the Governor directed legislative working groups to address the issues.

The recommended FY2013 budget underfunded projected Medicaid costs by $2.7 billion—a funding gap that the Medicaid working group was supposed to fix. In his speech, the Governor cited a January 2012 report by the Civic Federation, which stated that unpaid Medicaid bills could reach $21 billion by the end of FY2017 under existing policies.[10] The Governor's budget also assumed cost reductions of roughly $250 million in employee and retiree health insurance related to changes being sought from labor unions during negotiations for new contracts starting on July 1, 2012.

The next table summarizes the Governor's recommended FY2013 budget and compares it with the enacted FY2012 budget.

State of Illinois General Funds Budget Plan: FY2012-FY2013 as of February 22, 2012 (in $ millions)

	FY2012 Enacted	FY2013 Rec.
Total Resources	$ 33,221	$ 33,940
Total Expenditures	$ 33,727	$ 33,777
Operating Surplus/(Deficit)	**$ (506)**	**$ 163**
Accumulated Surplus/(Deficit)	$ (4,679)	$ (5,185)
Total Surplus/(Deficit)	**$ (5,185)**	**$ (5,022)**

Source: Illinois State FY2013 Budget, p. 2-18.

Even if budgeted cost reductions were achieved, the Governor's proposal did not make a dent in the State's multibillion dollar backlog of unpaid bills and other General Funds liabilities, including Medicaid bills, group health insurance claims and unpaid tax refunds.

General Assembly Budget Process—March 2012 to May 2012

In early March the General Assembly approved its own revenue projection for FY2013, effectively imposing a spending cap for the year.[11] The legislature is required by the Illinois Constitution to balance the budget by appropriating amounts that do not exceed funds projected to be available.[12]

[9] Office of Governor Pat Quinn, *Fiscal Year 2013 Budget Address*, February 22, 2012, http://www2.illinois.gov/budget/Documents/Budget%20Book/FY%202013/FINAL%20FY13%20BUDGET%20SPEECH.pdf (last visited on August 2, 2012).
[10] The Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2013 Budget Roadmap: State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly*, January 30, 2012, http://www.civicfed.org/FY2013IllinoisRoadMap (last visited on August 2, 2012).
[11] See Appendix A for a listing of major budget–related resolutions and bills for FY2013.
[12] Illinois Constitution, Article VIII, Section 2(b).

In separate and joint resolutions, the House and Senate agreed to an FY2013 General Funds revenue projection of $33.7 billion, $221 million below the Governor's projection of $33.9 billion.[13] The Senate and House developed separate revenue projections for the FY2012 budget that were more than $1 billion apart, leading to difficulty in reconciling their appropriation bills into one budget. In a report in November 2011, the Governor's Budgeting for Results Commission recommended that the two chambers develop a consensus on revenue estimates.[14]

Following approval of the revenue projection, the House on March 29, 2012 adopted a $33.7 billion spending plan.[15] The House allocated portions of the budget to what it described as non-discretionary items: pension contributions, employee group health insurance payments, Medicaid, debt service and legislatively required transfers to other funds. These amounts were substantially the same as in the Governor's proposal. The Medicaid appropriation was unchanged from FY2012, but as in the Governor's proposal it was based on the assumption that Medicaid costs would be reduced by $2.7 billion to prevent an increase in unpaid bills. If the Medicaid funding gap was not completely filled, the House budget resolution stated that amounts allocated to other agencies would be reduced accordingly.

After allocating resources to non-discretionary items, the House set aside $500 million to pay down the backlog of Medicaid bills and $300 million to pay down other bills. Through a cycle of state expenditures and federal reimbursements, the $500 million would generate an additional $500 million in federal funds for Medicaid bills, resulting in total bill payment of $1.3 billion. The remaining resources were divided among various groups of agencies, such as public safety agencies and human service agencies. While the Governor's budget projected $500 million in unspent appropriations, the House plan provided for $650 million. Net agency appropriations were more than $800 million below the Governor's recommendation.

The House budget resolution stated that any surplus that became available during the year due to higher than expected revenues would be used to reduce the backlog of unpaid bills. Although the House also passed a joint resolution that contained the House spending plan, the joint resolution was not adopted by the Senate.[16]

On March 12, 2012, Standard & Poor's warned that it could lower Illinois' credit rating by more than one notch if the State did not deal with its financial problems.[17] S&P specifically cited the State's pension liability, accumulated deficit and mismatch of spending and revenues.

In April 2012, Governor Quinn presented plans to deal with the State's Medicaid and pension problems. The Governor made both proposals after the legislative working groups addressing the issues were reportedly unable to agree on solutions. The Governor's plan to deal with the Medicaid underfunding, issued on April 19, relied on a combination of Medicaid program changes (used to fill 50% of the $2.7 billion funding gap); reductions in reimbursement rates paid to healthcare providers excluding doctors (25%); additional revenues for Medicaid from a

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[13] 97th Illinois General Assembly, House Resolution 707, adopted March 1, 2012; Senate Resolution 586, Adopted March 7, 2012; House Joint Resolution 68, Adopted by the House on March 1, 2012 and by the Senate on March 7, 2012.
[14] State of Illinois, Governor Pat Quinn, *Budgeting for Results Commission Report*, November 11, 2011, p. 9.
[15] 97th Illinois General Assembly, House Resolution 706, adopted March 29, 2012.
[16] 97th Illinois General Assembly, House Joint Resolution 69, adopted by the House on March 29, 2012.
[17] Doug Finke, "Illinois Faces Financial Struggle, S&P Suggests," *State Journal-Register*, March 12, 2012.

cigarette tax increase (12.5%); and federal reimbursements on Medicaid spending due to the cigarette tax increase (12.5%).[18]

The Governor's pension reform plan, issued on April 20, was projected to reduce the State's pension contributions by an amount between $65 billion and $85 billion—or as much as 27%—through FY2045.[19] The plan called for giving active employee members of four out of five of the State pension funds a choice between accepting lower benefits and higher contributions or keeping existing benefits and contribution levels but losing retiree health subsidies and pension benefits attached to future salary increases. Responsibility for funding the normal cost (retirement benefits earned by workers during a given fiscal year) of pension benefits for teachers outside of Chicago and university employees was to be gradually shifted from the State to local school districts, public universities and community colleges. State funding was based on actuarially required contributions that would lead to a 100% funded ratio by FY2042.

On May 9, the House passed legislation to reduce the State's bill for retiree health insurance by shifting more of the costs to retirees.[20] The legislation, which was approved a day later by the Senate, eliminated provisions of State law under which approximately 90% of the more than 80,000 retirees covered by the State's group insurance program do not pay any healthcare premiums. As discussed above, the Governor's FY2013 budget proposal included reduced appropriations for group health insurance based on changes being sought by the State in labor negotiations.[21]

Senate Democrats issued an FY2013 budget plan on May 18.[22] Like the House budget, the Senate Democrats' proposal capped General Funds spending at $33.7 billion and paid off $1.3 billion in accumulated bills. However, it devoted approximately $550 million more in General Funds to agency appropriations by relying on excess balances in Other State Funds (known as fund sweeps) and reduced transfers to those funds to pay down bills. On May 23, Senate Democrats passed appropriation measures without support from Senate Republicans.[23]

In the final seven days of the legislative session, which ended on May 31, the General Assembly passed a budget that generally mirrored the House version and also passed significant Medicaid legislation designed to close the $2.7 billion funding gap. The Illinois Constitution requires a simple majority vote of each chamber for bills passed by May 31 to take effect immediately.[24]

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[18] Office of Governor Pat Quinn, "Governor Quinn Announces Plan to Stabilize Illinois' Medicaid System," *news release*, April 19, 2012, http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=1&RecNum=10183 (last visited on August 9, 2012). See p. 31 Medicaid of this report for more information on Medicaid.
[19] Office of Governor Pat Quinn, "Governor Quinn Proposes Bold Plan to Stabilize the Public Pension System," *news release*, April 20, 2012, http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=1&RecNum=10188 (last visited on August 9, 2012). See p. 40 of this report for more detailed information on pensions.
[20] 97th Illinois General Assembly, Senate Bill 1313, passed by the House on May 9, 2012 (Public Act 97-0695). See p. 36 of this report for more information on group health insurance.
[21] The current contract has been temporarily extended while negotiations continue with help from a mediator.
[22] Jamey Dunn, "Senate Democrats say they are optimistic about Medicaid reform as they release a budget plan," *Illinois Issues blog*, May 18, 2012.
[23] 97th Illinois General Assembly, Senate Bills 2404, 2455 and 2461, passed by the Senate on May 23, 2012. See Jamey Dunn, "Senate Democrats get a jump on the budget," *Illinois Issues blog*, May 23, 2012.
[24] Illinois Constitution, Article IV, Section 8(c). See Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, pp. 4-5 for more information on the budget process.

After May 31, bills require a three-fifths vote to take effect before June 1 of the next calendar year.[25]

The Medicaid changes were contained in a package of bills that were the subject of intense negotiations with healthcare providers.[26] The package included large program cuts and a $1-a-pack increase in the State's cigarette tax. The legislation also included significantly lower reductions in reimbursement rates than the Governor's plan, a substantially higher estimate of savings that could be achieved through removing ineligible recipients from the Medicaid rolls, a tax-exemption framework for nonprofit hospitals favored by the Illinois Hospital Association, a new hospital assessment program and a six-month extension of the existing assessment program.[27] The State's ability to mask budget deficits by deferring payment of Medicaid bills was substantially curtailed.[28] A bill to allow Medicaid coverage for more patients at the Cook County public health system was approved, contingent on the enactment of other Medicaid-related bills.[29] One part of the Medicaid package—a General Funds transfer designed to provide $300 million in additional Medicaid funding—was passed by the House but not by the Senate, apparently due to a dispute about the level of education funding.[30]

The budget approved by the House on May 30 and the Senate on May 31 included $33.1 billion in General Funds expenditures.[31] The total was below the General Assembly's revenue estimate of $33.7 billion because it did not reflect $779 million in planned spending: $550 million for group insurance and $229 million for the Medicaid transfer that was not approved by the Senate. If those two elements were included, spending would have totaled $33.9 billion.

The General Assembly spending plan included funding for two prisons and other correctional facilities that the Governor wanted to close. The Senate passed a bill to increase General Funds education spending by $175 million from the level included in House appropriations, but the Senate bill was not considered by the House.[32] Other Senate bills not addressed by the House would have funded the increased revenues for education through higher taxes on satellite TV providers and offshore oil companies.[33]

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[25] Illinois Constitution, Article IV, Section 10.

[26] Illinois Hospital Association, "Legislative Home Stretch: Key Issues Being Decided," *IHA e-Update/Reporter*, May 25, 2012. The package included 97th Illinois General Assembly Senate Bill 2840, passed by the House and Senate on May 24 (Public Act 06890); Senate Bill 2194, passed by the House on May 25 and the Senate on May 29 (Public Act 97-0688); and Senate Bill 3261, passed by the House on May 25 and the Senate on May 29 (Public Act 97-0690).

[27] Hospital assessment programs use hospital funds to bring in additional Medicaid revenues for both hospitals and the State.

[28] 97th Illinois General Assembly, Senate Bill 3397, passed by the House on May 30 and the Senate on May 31 (Public Act 97-0691).

[29] 97th Illinois General Assembly, House Bill 5007, passed on May 24, 2012 (Public Act 97-0687).

[30] 97th Illinois General Assembly, Senate Bill 2971, passed by the House on May 30. See Rich Miller, "Miller: Cullerton quietly impressive during spring session," *Southtown Star*, June 10, 2012. The bill provides for $229 million in transfers out, including $151 million for Medicaid. The $151 million would generate roughly an equivalent amount in federal reimbursements.

[31] See Appendix A of this report for a listing of appropriation bills passed by the General Assembly.

[32] 97th Illinois General Assembly, Senate Bill 2365, passed by the Senate on May 31.

[33] 97th Illinois General Assembly, House Bill 5440, passed by Senate on May 31, 2012 ; House Bill 5342, passed by Senate on May 31, 2012.

Due to the large backlog of unpaid bills expected at the end of FY2012, the lapse period was extended to six months from two months for the third year in a row.[34] The lapse period is an additional period after the end of the fiscal year during which revenues from the next fiscal year may be used to pay for spending under the current fiscal year's appropriations. The lapse period usually ends on August 31 but has been extended to December 31 for the last three fiscal years.

The General Assembly adjourned without passing major pension reform legislation. Senate Bill 1673, as amended on May 29 by Speaker of the House Michael Madigan, incorporated many elements of the Governor's pension proposal and added provisions that would affect current retirees. The bill stalled in the House, however, after concerns were raised about the provision to shift normal pension costs for teachers to local school districts.[35] After it became clear that the House was not going to take action on the bill, the Senate approved its own pension legislation, House Bill 1447. As amended by the Senate, HB1447 reduced benefits only for State employees and members of the General Assembly. The House did not consider that legislation.

Enacted Budget and Subsequent Developments—June 2012 to the Present

Governor Quinn signed the budget on June 30.[36] Although the Governor's press release described the enacted budget as a $33.7 billion spending plan, the actual total is $33.0 billion, according to a recent State filing related to bond offerings.[37] The difference stems mainly from the $779 million shortfall in health insurance appropriations and transfers out discussed above. Both issues could be addressed in the fall veto session that is scheduled to begin on November 27 or later in the fiscal year.

In signing the budget, Governor Quinn issued line-item and reduction vetoes totaling $56.9 million. The vetoes reduced funding for prisons and other correctional facilities that the Governor plans to close. Vetoes that eliminate an appropriation's line item or reduce the appropriation must be considered during the fall veto session. The General Assembly may override a reduction veto by a majority vote and a line-item veto by a three-fifths vote.[38]

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[34] 97th Illinois General Assembly, Senate Bill 3802, passed the General Assembly on May 31, 2012 (Public Act 97-0732).
[35] Jamey Dunn, "State pension reform postponed," *Illinois Issues blog*, June 1, 2012.
[36] Illinois Government News Network, "Governor Quinn Takes Budget Action: Cuts Spending; Reforms Medicaid; Pays Bills," *news release*, June 30, 2012.
[37] State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure*, August 3, 2012, Table 1A. The $33.7 figure in the Governor's press release does not include $132 million to repay money borrowed from Other State Funds.
[38] Illinois Constitution, Article IV, Section 9(d).

The next table, which is based on the State's bond disclosure documents, summarizes the enacted budget plan for FY2013. The budget plan reflects the latest revenue estimate by the Governor's Office of $34.4 billion, up from the General Assembly projection of $33.7 billion.[39]

State of Illinois General Funds Budget Plan: FY2012-FY2013 (in $ millions)			
	FY2012 Revised	**FY2013 Rec.**	**FY2013 Enacted**
Total Resources	$ 33,623	$ 33,940	$ 34,398
Total Expenditures	$ 34,437	$ 33,778	$ 33,041
Operating Surplus/(Deficit)	**$ (814)**	**$ 162**	**$ 1,357**
Accumulated Surplus/(Deficit)	$ (4,507)	$ (5,013)	$ (5,321)
Total Surplus/(Deficit)*	**$ (5,321)**	**$ (4,851)**	**$ (3,966)**

*Totals may not sum due to rounding.

Source: State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1A.

It is important to note that FY2013 expenditures include $800 million to pay down bills accumulated in prior years. As a result, expenditures for current-year operations decline by $800 million more than suggested by the table. The reduction is offset, however, by additional Medicaid resources provided to Other State Funds through the increased cigarette tax and new hospital assessment program.

Unpaid General Funds bills are expected to decline from $5.4 billion at the end of FY2012 to $4.0 billion at the end of FY2013.[40] However, if additional group insurance appropriations and transfers are approved later this year, the amount of operating surplus available to pay down bills would decline by $779 million and the backlog of bills would rise to $4.8 billion. These yet to be enacted measures are required to achieve targeted levels of Medicaid and group health insurance liabilities at the end of FY2013. The Illinois Department of Revenue forecasts that no approved refunds due to taxpayers will remain unpaid at the end of FY2013.[41]

Total unpaid bills and other General Funds liabilities are projected at $7.6 billion at the end of FY2013, down $1.3 billion, or approximately 14%, from $8.9 billion at the end of FY2012. Due to data limitations, these numbers should be considered as rough estimates, particularly for Medicaid and group health insurance.[42] The numbers for FY2013 are based on the budget as currently enacted and do not assume that additional group insurance appropriations or Medicaid funding will be approved. The FY2013 numbers do assume that planned savings are realized in group health insurance and Medicaid.

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[39] See p. 16 of this report for more information on revenues.
[40] State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure*, August 3, 2012, Table 1A. See p. 42 of this report for more information on unpaid bills and other General Funds liabilities.
[41] Email communication between the Civic Federation and the Illinois Department of Revenue, September 4, 2012. See p. 19 of this report for more information on unpaid tax refunds.
[42] See p. 42 of this report for more information on other General Funds liabilities.

The following table shows the General Funds Bills and Other Liabilities estimated for FY2012 and currently projected for FY2013.

State of Illinois General Funds Bills and and Other Liabilities: Year End FY2012-FY2013 (in $ millions)		
Category	**FY2012 Estimated**	**FY2013 Projected**
General Funds Bills	$ 5,361	$ 4,005
Medicaid Bills*	$ 2,036	$ 1,638
Group Health Insurance Claims**	$ 1,400	$ 1,950
Unpaid Income Tax Refunds	$ 70	$-
Total	**$ 8,867**	**$ 7,593**

*Section 25 General Funds and related Medical Assistance liabilities of the Illinois Department of Healthcare and Family Services. For FY2013, based on currently enacted budget, which does not include approximately $300 million in planned Medicaid funding.

**Section 25 liabilities of the group health Insurance Program. For FY2013, based on currently enacted budget, which does not include $550 million in planned group insurance funding.

Source: State of Illlinois, General Obligation Bonds, Series of September 2012, *Official Statement* , September 13, 2012, pp. 8-12 and 39; email communications between Civic Federation and Governor's Office of Management and Budget, September 20, 2012, Illinois Department of Revenue, September 4, 2012, and Illinois Department of Healthcare and Family Services, September 26, 2012.

The State faces several lawsuits that could affect its ability to implement the FY2013 budget. Two suits in Sangamon County Circuit Court and one in Randolph County Circuit Court seek to overturn the law requiring State retirees to pay premiums for health insurance.[43] The lawsuits allege that the State's plan violates a provision of the Illinois Constitution that says that membership in any State pension or retirement system is "an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."[44] State officials have maintained that health insurance is not protected by the Constitution.[45]

Parents of children who are dependent on ventilators filed a lawsuit against the State in federal court in Chicago, arguing that planned Medicaid cuts violated the Americans with Disabilities Act by forcing the children to receive care in institutions, rather than at home.[46] The changes were scheduled to take effect on September 1, but the State was granted a 90-day delay by the federal government.[47] HFS plans to seek legislation amending the hospital assessment program to bring in additional funding for medically fragile and technology dependent children.

Council 31 of the American Federation of State, County and Municipal Employees (AFSCME) filed suit in Alexander County Circuit Court to prevent the closure of prisons and juvenile detention facilities.[48] The State's largest union argued that the plan would worsen overcrowding and endanger guards. After an arbitrator on August 31 ordered the State to refrain from taking

[43] Doug Finke, "Retired judge sues over new health care charges," *State Journal-Register*, July 9, 2012; Doug Finke, "Retired merit comp employees challenge health premiums," *State Journal-Register*, July 10, 2012; Council 31 AFSCME, "Suit filed to protect health care for state retirees," August 21, 2012.
[44] Illinois Constitution, Article XIII, Section 5.
[45] Jamey Dunn, "House votes to scale back public retiree health benefits," *Illinois Issues blog*, May 9, 2012.
[46] T.B. v. Julie Hamos, No. 12-5356 (N.D. Ill filed July 9, 2012).
[47] Email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 7, 2012.
[48] Monique Garcia, "Unions sues Quinn over prison closures, *Chicago Tribune*, August 3, 2012.

further steps until bargaining was concluded, AFSCME won a court order temporarily preventing the closure of State correctional facilities.[49]

Governor Quinn called a special session of the General Assembly for August 17 to address the State's pension problems.[50] During the special session, the only action on pensions involved House approval of an amendment to Senate Bill 3168 that would affect only the General Assembly Retirement System, the smallest of the State's five pension systems.[51] The amendment ended membership in the General Assembly plan for newly elected officials and gave existing members a choice between reduced benefits or existing benefits with no retiree health insurance or pensionable salary increases. The measure was expected to reduce statutorily required State pension contributions by $111 million through FY2045. Total required State contributions to the five State retirement systems are currently projected at $342 billion.[52] The House adjourned without a final vote on the amended bill, which was not considered by the Senate.

Citing the State's failure to enact pension reform, Standard & Poor's lowered Illinois' credit rating by one notch on August 29. [53] The rating agency also retained its negative outlook on the State's credit, signaling the possibility of a future downgrade. The negative outlook was attributed to potential deterioration of the pension funds' financial condition and budgetary pressures due to the partial rollback of income tax rate increases scheduled for January 1, 2015.

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[49] Council 31 AFSCME, "Judge issues TRO: No prison closures," September 4, 2012, http://www.afscme31.org/news?id=0418 (last visited on September 4, 2012).
[50] Illinois Government News Network, "Governor Quinn Calls Special Session on Pension Reform," *news release*, July 30, 2012.
[51] 97th Illinois General Assembly, Senate Bill 3168, House Amendment No. 3, passed August 17, 2012.
[52] Commission on Government Forecasting and Accountability, *A Report on the Financial Condition of the Illinois State Retirement Systems as of June 30, 2011*, March 2012, p. 95.
[53] Standard & Poor's, "Rating on Illinois Lowered to 'A' from 'A+' on Weak Pension Funding and Continued Structural Deficits; Outlook Negative," *news release*, August 29, 2012.

GENERAL FUNDS REVENUE

The budget enacted for FY2013 is based on General Funds revenues totaling $33.7 billion. The Illinois General Assembly passed this projected total by joint resolution prior to the allocation of resources for FY2013.[54] This marked the second year in a row 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.

At the time that the General Assembly approved its FY2013 General Funds revenue projections the total was slightly lower than both the Governor's projection included in the FY2013 recommended budget and the forecasts provided by the legislature's own financial oversight body, the Commission on Government Forecasting and Accountability (COGFA), which totaled $33.9 billion[55] and $34.0 billion respectively.[56]

Due to increased revenues in FY2012, the FY2013 revenue projection may be revised upward before the end of the fiscal year. The Illinois Department of Revenue has stated that after reviewing first quarter income tax and sales tax results and consulting with the Governor's Council of Economic Advisors it will determine whether a revision is warranted.[57] In June the Governor's Office increased its revenue projection slightly to $34.4 billion to account for an increase in anticipated federal revenues, but State-source revenues remained unchanged. COGFA published updated revenue projections of $33.8 billion for FY2013 shortly after the end of the fiscal year.

General Funds revenues are the source of funding that the Governor and General Assembly have the most discretion over during the annual appropriation process. 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 FY2013 All Funds Budget recommended by the Governor in February 2013 included revenue estimates totaling $55.6 billion.[58] Updated All Funds revenue projections are not yet available.

General Funds Revenue

The majority of General Funds revenues used to pay for the State's regular operations come from personal income taxes, corporate income taxes and sales taxes. 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.[59] Total General Funds revenues declined by $2.3 billion over the next two years from $29.7 billion in FY2008 to $27.4 billion in FY2010.[60] 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

[54] 97th Illinois General Assembly, House Joint Resolution 68.
[55] Illinois State FY2013 Budget, p. 2-63.
[56] Commission on Government Forecasting and Accountability, *3-Year Budget Forecast FY2013-FY2015*, March 2012, p. 7.
[57] Illinois Department of Revenue, *Monthly Revenue Report: Fiscal Year 2013, August*, September 27, 2012, pp. 2, 3.
[58] Illinois State FY2013 Budget, p. 2-62.
[59] National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," September 20, 2010.
[60] Illinois State Budgets: FY2009- FY2012.

Reinvestment Act of 2009 (ARRA).[61] State-source revenues declined by a total of $3.4 billion from $24.9 billion in FY2008 to $21.5 billion in FY2010, a loss of 13.7%. Over the same period, primarily due to ARRA funding for education and Medicaid, the State received an increase in General Funds resources of $3.5 billion from federal sources compared to an aggregate drop of $6.0 billion in state-source revenues.

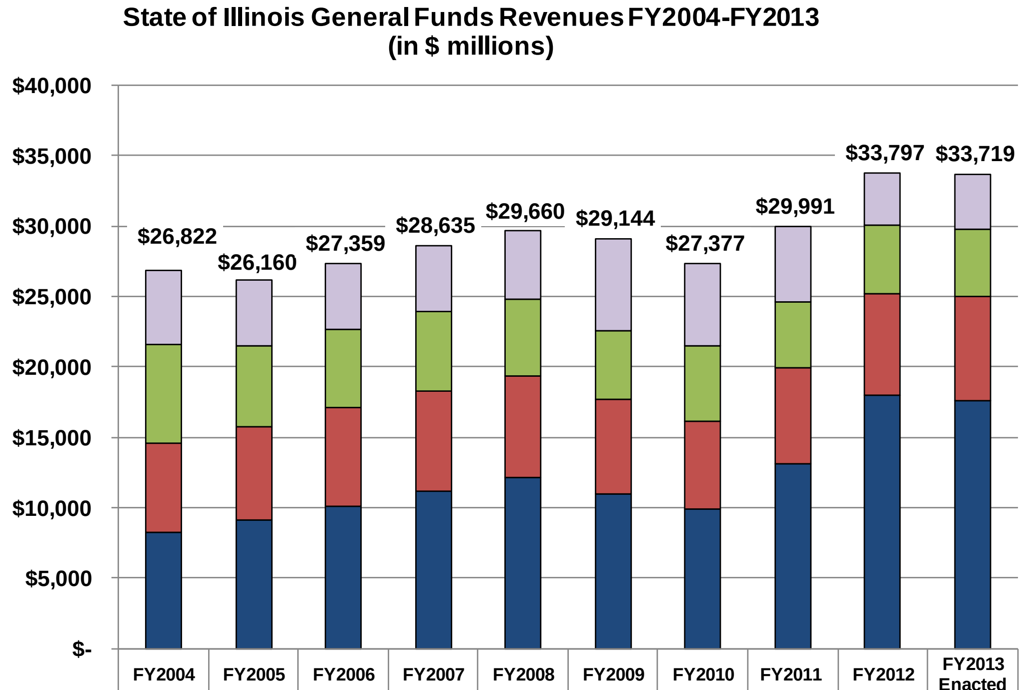
Although revenues began to stabilize and show marginal growth early in FY2011, overall revenue projections remained weak when the State enacted its FY2011 budget on June 30, 2010. Revenues in FY2011 were originally projected to increase by approximately $268 million, or less than 1.0%, from $27.4 billion in FY2010 to $27.7 billion before the State enacted an income tax increase that took effect in January 2011, halfway through the fiscal year.[62]

After the State increased income tax rates to 5.0% from 3.0% for individuals and to 7.0% from 4.8% for corporations, final revenues for the year increased by $2.6 billion.[63] Year-end General Funds revenues for FY2012, the first full year of the increased rates, increased by $3.8 billion from FY2011 totaling $33.8 billion.

The FY2013 enacted budget is based on General Funds revenues of $33.7 billion, a decrease of $78 million from the FY2012 year-end totals. The enacted FY2013 General Funds revenue estimate was established in March 2012 and originally amounted to an increase of $600 million from the $33.2 million FY2012 estimate included in the Governor's FY2013 recommended budget.

[61] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2012*, August 2012, p. 24.
[62] Public Act 96-1496.
[63] The State of Illinois also collects an additional 2.5% Personal Property Replacement Tax on corporation income that is passed through to local governments making the effective corporate income tax rate 9.5%.

The following chart shows the General Funds Revenue trend by major sources from FY2004 through the FY2013 enacted budget projections.



	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 Enacted
Total	$26,822	$26,160	$27,359	$28,635	$29,660	$29,144	$27,377	$29,991	$33,797	$33,719
Federal	$5,189	$4,691	$4,725	$4,702	$4,815	$6,567	$5,920	$5,386	$3,682	$3,935
Other State Taxes and Transfers	$7,094	$5,723	$5,479	$5,638	$5,450	$4,871	$5,279	$4,696	$4,916	$4,805
Sales Taxes	$6,331	$6,595	$7,092	$7,136	$7,215	$6,773	$6,308	$6,833	$7,226	$7,335
Income Taxes	$8,208	$9,151	$10,063	$11,159	$12,180	$10,933	$9,870	$13,076	$17,973	$17,644

Source: Illinois State Budgets FY2005-FY2013; 97th Illinois General Assembly, House Joint Resolution 68.

FY2012 Preliminary Results

Total General Funds revenues collected by the State in FY2012 exceeded projections included in the Governor's FY2013 recommended budget by $576 million.[64] General Funds revenue totaled $33.8 billion, which is a 1.7% increase from the estimate of $33.2 billion included in the Governor's Budget in February 2012.[65]

The majority of the increase in FY2012 operating revenues is attributable to gains in income taxes, which totaled $18.0 billion, or $557 million more than previously projected. Personal income taxes totaled $15.5 billion net of refunds, or $450 million more than the Governor's estimate. Net corporate income tax collected by the State totaled $2.5 billion, exceeding expectations of $2.4 billion by $107 million. Sales taxes are also up by $81 million to $7.2 billion. The revenue gains were slightly offset by a shortfall in federal revenues of $123 million and public utility taxes that were $87 million below estimates.

The following chart compares the actual results for FY2012 General Funds revenues to the Governor's estimates included in the FY2013 budget.

State of Illinois General Funds Revenues: FY2012 Governor's Estimates and Actual Results (in $ millions)

	FY2012 (Gov. Est.)	FY2012 (Actual)	$ Change	% Change
State Taxes				
Income Taxes (net)	$ 17,416	$ 17,973	$ 557	3.2%
Personal Income Tax (net)	$ 15,062	$ 15,512	$ 450	3.0%
Corporate Income Tax (net)	$ 2,354	$ 2,461	$ 107	4.5%
Sales Taxes	$ 7,145	$ 7,226	$ 81	1.1%
Public Utility Taxes	$ 1,082	$ 995	$ (87)	-8.0%
Cigarette Tax	$ 355	$ 354	$ (1)	-0.3%
Liquor Gallonage Taxes	$ 162	$ 164	$ 2	1.2%
Vehicle Use Tax	$ 31	$ 29	$ (2)	-6.5%
Inheritance Tax	$ 215	$ 235	$ 20	9.3%
Insurance Taxes & Fees	$ 302	$ 345	$ 43	14.2%
Corporate Franchise Tax & Fees	$ 204	$ 192	$ (12)	-5.9%
Interest on State Funds & Investments	$ 20	$ 21	$ 1	5.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 411	$ 399	$ (12)	-2.9%
Total State Taxes	**$ 27,587**	**$ 28,177**	**$ 590**	**2.1%**
Transfers			$ -	
Lottery	$ 639	$ 640	$ 1	0.2%
Riverboat Transfers & Receipts	$ 339	$ 340	$ 1	0.3%
Proceeds From 10th Gaming License	$ 73	$ 73	$ -	0.0%
Other	$ 778	$ 885	$ 107	13.8%
Total Transfers	**$ 1,829**	**$ 1,938**	**$ 109**	**6.0%**
Total State-Source Revenues	**$ 29,416**	**$ 30,115**	**$ 699**	**2.4%**
Federal Sources	**$ 3,805**	**$ 3,682**	**$ (123)**	**-3.2%**
Total Revenue	**$ 33,221**	**$ 33,797**	**$ 576**	**1.7%**

Source: Illinois State FY2013 Budget, p. 2-63; Commission on Government Forecasting and Accountability, *Monthly Briefing: June 2012,* August 2012, p. 8.

64 Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, p. 27.
65 Illinois State FY2013 Budget, p. 2-63.

FY2013 Enacted Projection

Due to better than expected results in FY2012, the General Funds revenue projection in the FY2013 enacted budget is slightly below the actual results for FY2012.[66] The projections agreed on by both chambers of the General Assembly for FY2013 total $33.7 billion, a decrease of $78 million from the preliminary year-end results of $33.8 billion in FY2012.

The FY2013 enacted budget estimates that personal income tax proceeds, net of refunds, will total $15.1 billion, a decrease of $372 million, or 2.4%, from the FY2012 year-end total of $15.5 billion.[67] Corporate income tax revenues, net of refunds, are expected to total $2.5 billion, an increase of $43 million from FY2012.

In all, State tax revenues decline to $28.0 billion in the enacted projections for FY2013, a decrease of $193 million from the total of $28.2 billion in FY2012. The lower State-source revenue projections are partially offset by an increase in General Funds revenues from federal sources. Federal revenues that support FY2013 General Funds operations increase by $253 million to $3.9 billion from the FY2012 year-end results of $3.7 billion. The following chart compares the FY2012 preliminary year-end results for General Funds revenues to the enacted estimates for FY2013.

State of Illinois General Funds Revenue: FY2012 Year-End Results Compared to FY2013 Enacted Projections (in $ millions)

	FY2012 (Actual)	FY2013 (Enacted)	$ Change	% Change
State Taxes				
Income Tax	$ 17,973	$ 17,644	$ (329.0)	-1.8%
Personal Income Tax (net)	$ 15,512	$ 15,140	$ (372.0)	-2.4%
Corporate Income Tax (net)	$ 2,461	$ 2,504	$ 43.0	1.7%
Sales Taxes	$ 7,226	$ 7,335	$ 109.0	1.5%
Public Utility Taxes	$ 995	$ 1,085	$ 90.0	9.0%
Cigarette Tax	$ 354	$ 355	$ 1.0	0.3%
Liquor Gallonage Taxes	$ 164	$ 162	$ (2.0)	-1.2%
Vehicle Use Tax	$ 29	$ 29	$ -	0.0%
Inheritance Tax	$ 235	$ 230	$ (5.0)	-2.1%
Insurance Taxes & Fees	$ 345	$ 285	$ (60.0)	-17.4%
Corporate Franchise Tax & Fees	$ 192	$ 195	$ 3.0	1.6%
Interest on State Funds & Investments	$ 21	$ 20	$ (1.0)	-4.8%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 399	$ 400	$ 1.0	0.3%
Total State Taxes	**$ 28,177**	**$ 27,984**	**$ (193.0)**	**-0.7%**
Transfers				
Lottery	$ 640	$ 649	$ 9.0	1.4%
Riverboat Transfers & Receipts	$ 340	$ 340	$ -	0.0%
Proceeds From 10th Gaming License	$ 73	$ 10	$ (63.0)	-86.3%
Other	$ 885	$ 801	$ (84.0)	-9.5%
Total Transfers	**$ 1,938**	**$ 1,800**	**$ (138.0)**	**-7.1%**
Total State-Source Revenue	**$ 30,115**	**$ 29,784**	**$ (331.0)**	**-1.1%**
Federal Sources	**$ 3,682**	**$ 3,935**	**$ 253.0**	**6.9%**
Total Revenue	**$ 33,797**	**$ 33,719**	**$ (78)**	**-0.2%**

Source: 97th Illinois General Assembly, House Joint Resolution 68; Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013* , August 2012, p. 27.

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[66] 97th Illinois General Assembly, House Joint Resolution 68.

[67] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, p. 27.

FY2013 Revised Projections

The FY2013 General Funds revenue projections passed in HJR 68 were based on mid-year estimates of FY2012 revenues available in February 2012. Now that actual results are available for FY2012, COGFA has published updated FY2013 projections based on the new data.[68]

COGFA's revised projections for FY2013 General Funds revenues total $33.9 billion, a decrease of $110 million from their earlier estimate of $34.0 billion published in March 2012.[69] Although the new projection includes an increase of $443 million in State-source revenues, a decline in federal revenues of $253 million offsets the gains. However, the total COGFA revenue estimate is still larger than the total in HJR 68 by $161 million. According to the more recent COGFA estimate, General Funds revenue from the personal income tax is expected to total $15.4 billion, which is $225 million more than the enacted budget totals. COGFA estimates for corporate income tax revenues are also higher, totaling $2.7 billion, $171 million more than in the enacted budget projections.

The following table compares the most recent COGFA projections for FY2013 to the enacted budget totals agreed on by the General Assembly.

State of Illinois General Funds Revenue: FY2013 Enacted Budget Projections Compared to COGFA Revised (in $ millions)

	FY2013 (Enacted)	FY2013 (COGFA)	$ Change	% Change
State Taxes				
Income Tax	$ 17,644	$ 18,040	$ 396.0	2.2%
Personal Income Tax (net)	$ 15,140	$ 15,365	$ 225.0	1.5%
Corporate Income Tax (net)	$ 2,504	$ 2,675	$ 171.0	6.8%
Sales Taxes	$ 7,335	$ 7,340	$ 5.0	0.1%
Public Utility Taxes	$ 1,085	$ 1,060	$ (25.0)	-2.3%
Cigarette Tax	$ 355	$ 355	$ -	0.0%
Liquor Gallonage Taxes	$ 162	$ 164	$ 2.0	1.2%
Vehicle Use Tax	$ 29	$ 30	$ 1.0	3.4%
Inheritance Tax	$ 230	$ 235	$ 5.0	2.2%
Insurance Taxes & Fees	$ 285	$ 345	$ 60.0	21.1%
Corporate Franchise Tax & Fees	$ 195	$ 192	$ (3.0)	-1.5%
Interest on State Funds & Investments	$ 20	$ 20	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 400	$ 402	$ 2.0	0.5%
Total State Taxes	**$ 27,984**	**$ 28,427**	**$ 443.0**	**1.6%**
Transfers				
Lottery	$ 649	$ 656	$ 7.0	1.1%
Riverboat Transfers & Receipts	$ 340	$ 365	$ 25.0	7.4%
Proceeds From 10th Gaming License	$ 10	$ 10	$ -	0.0%
Other	$ 801	$ 740	$ (61.0)	-7.6%
Total Transfers	**$ 1,800**	**$ 1,771**	**$ (29.0)**	**-1.6%**
Total State-Source Revenue	**$ 29,784**	**$ 30,198**	**$ 414.0**	**1.4%**
Federal Sources	**$ 3,935**	**$ 3,682**	**$ (253.0)**	**-6.4%**
Total Revenue	**$ 33,719**	**$ 33,880**	**$ 161**	**0.5%**

Source: 97th Illinois General Assembly, House Joint Resolution 68; Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013* , August 2012, p. 30.

[68] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, p. 30.
[69] Commission on Government Forecasting and Accountability, *3-Year Budget Forecast FY2013-FY2015*, March 2012, p. 7.

As part of its bond disclosure documents, the Governor's Office of Management and Budget (GOMB) also issued a revision to its FY2013 revenue projections after the enacted budget was passed. The GOMB estimate increases total General Funds revenue by $462 million to $34.4 billion to account for increased federal reimbursements and transfers in the FY2013 budget.[70]

GOMB's federal revenue projections increase by $296 million to $4.2 billion due to higher than expected Medicaid spending at the end of FY2012 that will be reimbursed by the federal government in FY2013.[71] Transfers into the General Funds increase by $199 million to $2.0 billion. The higher transfers are due to an appropriated amount of $264 million to the new Backlog Payment Fund, which is then transferred back to the General Funds to pay down a portion of the State's outstanding bills not related to Medicaid.[72]

The remaining revenue projections from GOMB have not changed since the publication of the Governor's budget in February 2012. In all, GOMB's projections are $683 million above the projections passed by the General Assembly in HJR 68.

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.[73]

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 governments.[74] 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.[75] The deposit into the Local Government Distributive Fund is made after income tax revenues are diverted into the Refund Fund.[76]

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[70] State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement*, September 13, 2012, p. 8.

[71] State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement*, September 13, 2012, p. 20.

[72] See p. 43 for more details on the State's backlog of unpaid bills.

[73] 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.

[74] 35 ILCS 5/901(b).

[75] Public Act 96-1496.

[76] A higher business refund rate would also decrease the amount of Personal Property Replacement Tax transferred to local governments.

The Refund Fund rates are set by the Illinois General Assembly or can be set through a statutory formula that 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.[77] 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.[78]

The State experienced an increase in the backlog of unpaid refunds between FY2008 and 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. In FY2011 the backlog of unpaid refunds declined slightly to $626.9 million.

Currently, IDOR projects that no approved refunds will be unpaid on June 30, 2013 and only $70 million in refunds were owed at the end of FY2012. The following table shows unpaid individual income tax (IIT) refunds and business income tax (BIT) refunds from FY2008 to FY2012 and the projection for FY2013.

State of Illinois Individual and Business Income Tax Refunds: FY2008-FY2013 (in $ millions)

	IIT Receipts	IIT Refund Fund Rate	IIT Deposits to Refund Fund	IIT Refunds Paid	Unpaid IIT Refunds*	BIT Receipts	BIT Refund Fund Rate	BIT Deposits to Refund Fund	BIT Refunds Paid	Unpaid BIT Refunds*
FY2008	$ 11,187	7.75%	$ 867	$ 1,076	$ -	$ 3,687	15.50%	$ 572	$ 319	$ 4
FY2009	$ 10,219	9.75%	$ 996	$ 1,220	$ 5	$ 3,336	17.50%	$ 584	$ 358	$ 214
FY2010	$ 9,430	9.75%	$ 920	$ 1,335	$ 44	$ 2,662	17.50%	$ 466	$ 1	$ 691
FY2011	$ 12,302	8.75%	$ 1,076	$ 1,290	$ 19	$ 3,620	17.50%	$ 634	$ 263	$ 627
FY2012	$ 17,000	8.75%	$ 1,486	$ 1,276	$ -	$ 4,225	17.50%	$ 739	$ 866	$ 70
FY2013**	$ 16,922	9.75%	$ 1,650	na	$ -	$ 4,137	14.00%	$ 579	na	$ -

*As of June 30.

**Estimated, except for Refund Fund rates, which are established by law. The Illinois Department of Revenue expects to pay all processed and approved refunds due in FY2013.

Source: Public Act 97-0732; email communication between Civic Federation and Illinois Department of Revenue, September 4, 2012.

The reason for the decline, according to the IDOR, is that employers took a long time to adjust the amount of income tax withheld from workers' pay to reflect the increase in the State income tax rate from 3% to 5% in January 2011. As a result, some individuals owed additional tax instead of receiving refunds. Because individual refunds were lower than expected, funds were available in the Refund Fund to pay down the backlog of business refunds.

The enacted budget for FY2013 raises the Refund Fund rate for individual income taxes to 9.75% and lowers the rate for business income taxes to 14.0%.

Cigarette Tax Increase

Although it is not reflected in the General Funds revenue projections, the General Assembly approved a $1-per-pack cigarette tax increase as a component of the State's plan to eliminate a $2.7 billion funding gap for the Medicaid program in FY2013.[79] Legislative estimates during spring session showed the tax producing $350 million in State revenues outside the General

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[77] 35 ILCS 5/901.
[78] Communication between the Civic Federation and the Department of Revenue, April 25, 2011.
[79] For more information on Medicaid see p. 31 of this report.

Funds that would be matched by federal revenues for $700 million in total resources. Medicaid spending is reimbursed by the federal government at a rate of 50% but State spending on Medicaid is doubled through a cycle of payments and federal reimbursement sometimes referred to in Illinois as "churning."

IDOR has reduced the estimate of additional revenues attributable to the cigarette tax increase citing a run on tax stamps by distributors before the higher rate took effect.[80] Total revenues generated at the increased rate of $1.98 per pack are now expected to total $726.7 million, down from the original projection of $852.4 million. Medicaid funding is protected from these losses because the entire $1.00 per pack increase is designated to pay for program costs. Medicaid funding is also preserved by offsetting revenue gains from other tobacco taxes.

Illinois collects the cigarette tax through stamps sold to distributors of tobacco products equal to the amount of the tax. The stamps are then affixed to cigarette packaging and the cost passed on to consumers. To prevent distributors from stockpiling the stamps, IDOR attempted to administratively limit their sale between May, when the discussions regarding the proposal to increase the cigarette tax rate began, and when it took effect on June 24, 2012. However, on June 14, 2012, the same day the Governor signed the bill into law, distributors won a temporary restraining order against the department that prohibited the restriction of sales tax stamp sales. According to IDOR, this led to a massive run on cigarette tax stamps at the lower rate and will greatly reduce anticipated revenues from the cigarette tax in FY2013.

Due to cigarette tax stamp hoarding, IDOR currently estimates that total packs of cigarettes sold under the increased tax rate in FY2013 will total 367 million. The updated estimate is down by 63.5 million from the original pre-hoarding estimate of 430.5 million packs.[81] Prior to the cigarette tax increase it was estimated that the FY2013 sales would total 524 million packs, which was reduced to account for the lower demand due to the higher price.

After adjusting for the drop in demand combined with the increase in the cigarette tax rate, IDOR first estimated cigarette tax revenues would increase to $852.4 million or $338.9 million more than the $513.5 million projection at the original tax rate of $0.98. The State also increased the tax rate on other tobacco products from 18% to 36%, which was estimated to generate $11 million in new revenue, also to pay for Medicaid costs.

After the new tax rate of $1.98 was applied to the lower hoarding estimate of 367 million packs, new projections show total cigarette tax revenues dropping to $726.7 million, a $125.7 million reduction from the initial tax increase projections and only $213.1 million more than the pre-increase total. However, due to the hoarding the State is also increasing its estimate of how much it will recoup from the early purchase of cigarette tax stamps through a 'floor tax' included in the tobacco tax increase. The floor tax is imposed when a distributor's monthly FY2012 average purchases exceed their FY2011 monthly average purchases. The difference is what the distributor owes in floor tax for FY2013, which totals $13 million in new revenues not accounted for before the hoarding.

[80] Illinois Department of Revenue, *Monthly Revenue Report: Fiscal Year 2013, July*, August 2012, p. 4.
[81] Communication between Civic Federation staff and the Illinois Department of Revenue, September 21, 2012.

The following table shows the change in total revenue projections from cigarette and tobacco taxes for FY2013.

State of Illinois Projected FY2013 Cigarette Tax and Tobacco Tax Revenues (in $ millions)						
	Original Pre-Increase Estimate	**Increased-Tax Estimate**	**$ Change after Tax Increase**	**Post-Hoarding Estimate**	**$ Change After Hoarding**	**$ Change Hoarding to Original**
Cigarette Tax						
Estimated Packs (millions)	**524**	**430.5**	**-93.5**	**367**	**-63.5**	**-157**
Revenue from $0.98	$ 513.5	$ 421.9	$ (91.6)	$ 359.7	$ (62.2)	$ (153.9)
Revenue From $1.00	$ -	$ 430.5	$ 430.5	$ 367.0	$ (63.5)	$ 367.0
Total Cigarette Tax Revenues	**$ 513.5**	**$ 852.4**	**$ 338.9**	**$ 726.7**	**$ (125.7)**	**$ 213.1**
Tobacco Tax Revenue (Increase rate 36%)	**$ 29.0**	**$ 40.0**	**$ 11.0**	**$ 40.0**	**$ -**	**$ 11.0**
Tobacco Tax (floor tax)	**$ -**		**$ -**	**$ 13.0**	**$ 13.0**	**$ 13.0**
All Cigarette and Tobacco Tax Revenues	**$ 542.5**	**$ 892.4**	**$ 349.9**	**$ 779.7**	**$ (112.7)**	**$ 237.1**

Source: Illinois Department of Revenue, *Monthly Revenue Report: Fiscal Year 2013, July* , August 2012, p. 4; Communication between Civic Federation Staff and Illinois Department of Revenue, September 19, 2012.

Despite the lower total revenue outlook for FY2013, Medicaid funding from cigarette taxes, along with increases in other tobacco taxes, is still estimated to total $345.5 million. The funding intended for Medicaid is protected by the statutorily required distribution of the funds under the cigarette tax legislation.

Under the law, the original $0.98 tax is still split between the three funds. The General Funds receives the first draw on the tax proceeds of $355 million annually. Revenues received above the General Funds payment are then deposited to the School Infrastructure Fund totaling up to $60 million annually. The remainder is then deposited into the Long Term Care Provider Fund, a fund used to pay for Medicaid expenses. All of the additional $1.00 per pack from the rate increase is transferred into the Hospital Provider Fund to pay for previously underfunded Medicaid costs.

As the estimated number of packs to be sold in FY2013 was reduced to account for demand changes due to the price increase, the amount to be paid to the Long Term Care Provider Fund for Medicaid funding declined to $6.9 million, a loss of $91.6 million from the original estimate of $98.5 million. The deposit was then reduced to zero after the tax revenue estimate was revised to include the hoarding reduction in packs sold due to hoarding. However, this loss in Medicaid funding was more than offset by the new $367 million available for Medicaid funding in the Hospital Provider Fund, since all of the increase in the cigarette tax rate was designated to the fund. Also, the end of year hoarding in FY2012 led to a $53 million increase at the end of the year in the Long Term Care Provider Fund that will be available for FY2013 costs. All of the revenue increases from the tobacco tax increase and floor tax will be deposited into either the Long Term Care Provider Fund or the Hospital Provider Fund for Medicaid funding in FY2013 as well.

The following table shows how the revenues are deposited into various funds and the effect of the new revenue projections for the cigarette and tobacco taxes.

State of Illinois FY2013 Projected Cigarette Tax and Tobacco Tax Distribution (in $ millions)	Original Pre-Increase Estimate	Increased-Tax Estimate	$ Change after Tax Increase	Post-Hoarding Estimate	$ Change After Hoarding	$ Change Hoarding to Original
Total Cigarette and Tobacco Tax Revenue	**$ 542.5**	**$ 892.4**	**$ 349.9**	**$ 779.7**	**$ (112.7)**	**$ 237.1**
Distributions						
General Fund	$ 355.0	$ 355.0	$ -	$ 355.0	$ -	$ -
School Infrastructure Fund	$ 60.0	$ 60.0	$ -	$ 4.7	$ (55.3)	$ (55.3)
Medicaid Funding			$ -		$ -	$ -
Long Term Care Provider	$ 98.5	$ 6.9	$ (91.6)	$ -	$ (6.9)	$ (98.5)
Healthcare Provider Relief ($1.00/ pack)	$ -	$ 430.5	$ 430.5	$ 367.0	$ (63.5)	$ 367.0
Cigarette Tax Medicaid Funding	**$ 98.5**	**$ 437.4**	**$ 338.9**	**$ 367.0**	**$ (70.4)**	**$ 268.5**
Tobacco Tax Revenue	**$ 29.0**	**$ 40.0**	**$ 11.0**	**$ 53.0**	**$ 13.0**	**$ 24.0**
Long Term Care Provider	$ 29.0	$ 20.0	$ (9.0)	$ 20.0	$ -	$ (9.0)
Healthcare Provider Relief	$ -	$ 20.0	$ 20.0	$ 20.0	$ 20.0	$ 20.0
Healthcare Provider Relief (Floor Tax)	$ -		$ -	$ 13.0	$ 13.0	$ 13.0
FY2012 Hoarding Long Term Care Provider	**$ -**	**$ -**	**$ -**	**$ 53.0**	**$ 53.0**	**$ 53.0**
Total FY2013 Medicaid Funding*	**$ 127.5**	**$ 477.4**	**$ 349.9**	**$ 473.0**	**$ (4.4)**	**$ 345.5**

*Total state-source Medicaid funding from tobacco taxes excluding federal reimbursements. Medicaid spending is reimbursed by the federal government at a rate of 50% but State spending on Medicaid is doubled through a cycle of payments and federal reimbursement sometimes referred to in Illinois as "churning."

Source: Illinois Department of Revenue, *Monthly Revenue Report: Fiscal Year 2013, July* , August 2012, pp. 4; Communication between Civic Federation Staff and Illinois Department of Revenue, September 19, 2012.

As shown above, although the Medicaid funding associated with the cigarette tax increase is only mildly affected by the lower sales estimates (reduced by $4.4 million), the School Infrastructure Fund transfer is almost entirely eliminated. Revenues deposited in the School Infrastructure Fund are used to pay debt service on General Obligation bonds associated with statewide school construction. The lower funding from the cigarette tax could lead to a $55.3 million increase in the required General Funds debt service payment if these estimates hold true and no other revenue source makes up the difference.

APPROPRIATIONS AND EXPENDITURES

The General Assembly makes annual appropriations for 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.

General Funds expenditures are mainly based on annual appropriations. General Funds are also spent on statutorily required transfers to other funds. Transfers out of General Funds include amounts dedicated to bond payments and other legislatively required funding transfers.

Appropriations by Fund

Total FY2013 appropriations increase by 2.2% to $59.0 billion from $57.7 billion in FY2012. The increase is mainly due to Medicaid-related spending from Other State Funds.[82] Appropriations for Other State Funds increase by $2.7 billion, or 14.4%, to $21.8 billion in FY2013 from $19.0 billion in FY2012. General Funds appropriations decline by $544 million, or 1.8%, from $29.5 billion to $29.0 billion, and Federal Funds appropriations decline by 10.0% from $9.1 billion to $8.2 billion.

State of Illinois Total Appropriations: FY2012-FY2013 (in $ millions)

	FY2012 Revised	FY2013 Enacted	$ Change	% Change
General Funds	$ 29,549	$ 29,005	$ (544)	-1.8%
Other State Funds*	$ 19,035	$ 21,782	$ 2,747	14.4%
Federal Funds	$ 9,125	$ 8,211	$ (914)	-10.0%
Total	**$ 57,709**	**$ 58,998**	**$ 1,289**	**2.2%**

*Other State Funds appropriations are reduced by Revolving Funds appropriations to avoid double counting.

Source: Email communication between Civic Federation and Governor's Office of Management and Budget, July 18, 2012.

It should be noted that actual spending from Other State Funds and Federal Funds is often below enacted appropriations. Expenditures may not reach appropriated levels because the State enacts appropriation bills without knowing the precise level of funding that will be available. In addition, expenditures may not reach budgeted levels because of specific federal spending requirements that cannot be met in a given fiscal year.

[82] For more information on Medicaid, see p. 31 of this report.

The following table compares Governor Quinn's recommended appropriations for FY2013 with enacted FY2013 appropriations. Total appropriations are $1.6 billion, or 2.8%, higher in the $59.0 billion enacted budget. Lower General Funds appropriations in the enacted budget are more than offset by increased appropriations from Other State Funds.

State of Illinois Total Appropriations: FY2013 Recommended-FY2013 Enacted (in $ millions)

	FY2013 Rec.	FY2013 Enacted	$ Change	% Change
General Funds	$29,918	$ 29,005	$ (913)	-3.1%
Other State Funds*	$19,335	$ 21,782	$ 2,447	12.7%
Federal Funds	$8,157	$ 8,211	$ 54	0.7%
Total	**$57,410**	**$ 58,998**	**$ 1,588**	**2.8%**

*Other State Funds appropriations are reduced by Revolving Funds appropriations to avoid double counting.

Source: Illinois State FY2013 Budget, p. 2-37; email communication between Civic Federation and Governor's Office of Management and Budget, July 18, 2012.

The next table compares FY2012 and FY2013 appropriations for four components of General Funds: agency appropriations, pension contributions, group insurance payments and agency appropriations to pay down outstanding bills. A decline in FY2013 appropriations for agency activities and group insurance is offset by an increase in pension contributions.

State of Illinois General Funds Appropriations: FY2012-FY2013 (in millions)

Category	FY2012 Revised	FY2013 Enacted	$ Change	% Change
Agency Appropriations	$ 24,012	$ 23,091	$ (921)	-3.8%
Agency Appropriations for Bill Paydown	$ -	$ 264	$ 264	na
Pension Contributions	$ 4,135	$ 5,100	$ 965	23.3%
Group Insurance	$ 1,436	$ 550	$ (886)	-61.7%
Total	**$ 29,583**	**$ 29,005**	**$ (578)**	**-2.0%**

Source: State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1; email communication between Civic Federation and Governor's Office of Management and Budget, July 24, 2012.

Agency appropriations decline by $921 million, or $3.8%, from $24.0 billion in FY2012 to $23.1 billion in FY2013. It should be noted that net agency appropriations, after deducting appropriations that are projected to remain unspent at the end of the year, decline by $1.3 billion, or 5.3%.[83]

[83] For more information on net agency appropriations, see p. 27 of this report.

The FY2013 budget includes an appropriation of $264 million to the Illinois Office of the Comptroller to be deposited into the newly created Backlog Payment Fund. This amount will be used for payment of outstanding bills not related to Medicaid.[84]

Appropriations for group insurance decline by $886 million, or 61.7%, from $1.4 billion to $550 million.[85] Governor Quinn recommended FY2013 General Funds appropriations of $1.171 billion for group insurance, citing expected cost reductions stemming from labor negotiations. The General Assembly reduced this amount by roughly 50%, apparently intending to approve the remaining spending authority for FY2013 later in the year.[86] Pension contributions from General Funds increase by $965 million to $5.1 billion in FY2013 from $4.1 billion in FY2012.[87]

The next table compares the Governor's recommended FY2013 General Funds appropriations with enacted General Funds appropriations. As discussed above, the enacted FY2013 budget includes roughly half of the Governor's proposed General Funds appropriation for group insurance. Agency appropriations of $23.1 billion are $566 million, or 2.4%, lower than the Governor's proposal. The enacted FY2013 budget includes $10 million more for General Funds pension contributions to offset a reduction from the Governor's proposal in the share of pension contributions funded by transfers from the State Pension Fund.[88]

State of Illinois General Funds Appropriations: FY2013 Recommended-FY2013 Enacted (in $ millions)

Category	FY2013 Rec.	FY2013 Enacted	$ Change	% Change
Agency Appropriations	$ 23,657	$ 23,091	$ (566)	-2.4%
Agency Appropriations for Bill Paydown	$ -	$ 264	$ 264	na
Pension Contributions	$ 5,090	$ 5,100	$ 10	0.2%
Group Insurance	$ 1,171	$ 550	$ (621)	-53.0%
Total	**$ 29,918**	**$ 29,005**	**$ (913)**	**-3.1%**

Source: State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1; email communication between Civic Federation and Governor's Office of Management and Budget, July 24, 2012.

[84] State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure*, August 6, 2012.
[85] For more information on group insurance, see p. 36 of this report.
[86] Email communication between the Civic Federation and the Governor's Office of Management and Budget, July 6, 2012.
[87] For more information on pensions, see p. 40 of this report.
[88] Resources for this transfer are provided by the Unclaimed Property Trust Fund.

Appropriations by Agency

Agency appropriations include salaries and wages but do not include pension contributions or group insurance payments, which are appropriated separately. Approximately 90% of State employees are covered by collective bargaining agreements, and these agreements expired on June 30, 2012.[89] The State's largest union, Council 31 of the American Federation of State, County and Municipal Employees (AFSCME), represents approximately 40,000 State workers.[90] AFSCME and the State agreed to a temporary extension of current contract terms while a new agreement is negotiated.[91] The FY2013 budget does not provide for wage and salary increases.

The table on page 29 shows FY2012 and FY2013 appropriations for the 10 largest agencies, ranked by total FY2013 appropriations and excluding pension contributions and group insurance. The largest agency is the Department of Healthcare and Family Services (HFS), which administers the State's Medicaid program. Total HFS appropriations increase by $2.8 billion, or 18.6%, to $17.7 billion in FY2013 from $15.0 billion in FY2012 due to higher Other State Funds appropriations.

Among the other large agencies, only the Department of the Lottery and Department on Aging show significant increases in total appropriations. The Lottery Department was established as a separate agency in October 2011 to supervise the private manager selected to run the State's lottery.[92] Lottery appropriations increase 9.8% to $1.0 billion in FY2013 based on a projected increase in ticket sales. Total appropriations for the Department on Aging increase by $59 million, or 7.2%, to $882 million in FY2013 from $823 million in FY2012. The increase is largely due to higher General Funds appropriations for the Community Care Program, which provides services to help senior citizens stay in their own homes and out of nursing homes.

The State Board of Education has the largest decline in appropriations, with total appropriations dropping by $759 million, or 7.4%, from $10.3 billion in FY2012 to $9.5 billion in FY2013. General State Aid, the principal State spending program for elementary and secondary education, declines by $161.4 million, or 3.6%, from $4.45 billion in FY2012 to $4.29 billion in FY2013.[93] General State Aid payments are based on a Foundation Level of funding, which is established annually by statute and represents the minimum per child financial support that should be available to provide for the basic education of each student.[94] General State Aid is designed to help fill the gap between the Foundation Level and the amount a district can provide from local property tax revenues and other local resources. The Foundation Level has been unchanged since FY2010 at a per pupil amount of $6,119.[95] General State Aid funding for FY2013 represents 89% of the Foundation Level, or $5,733 per pupil.[96]

Total appropriations for higher education decline by $169 million, or 6.5%, from $2.6 billion in FY2012 to $2.4 billion in FY2013. Higher education includes nine State universities, the Board

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89 State of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement*, May 1, 2012, p. 7.
90 Council 31 AFSCME, "State master contract extended, mediator called in," June 27, 2012.
91 Doug Finke, "AFSCME, state extend contract, call for mediator," *State Journal-Register*, June 27, 2012.
92 Public Act 97-0464.
93 Illinois State Board of Education, *FY2013 Enacted Operating Budget, Education Reform Budget, Public Act 97-0728*, July 6, 2012.
94 105 ILCS 5/18-8.05(B).
95 Illinois State Board of Education, GSA Overview, http://www.isbe.net/funding/pdf/gsa_overview.pdf (last visited on September 19, 2012).
96 Illinois State Board of Education, *Weekly Message*, August 14, 2012.

of Higher Education, the Community College Board, the Student Assistance Commission, the Mathematics and Science Academy and the State Universities Civil Service System. Appropriations for the University of Illinois, the State's largest university, decline by $26.5 million, or 3.8%, from $694.0 million in FY2012 to $667.4 million in FY2013.

The Department of Commerce and Economic Opportunity, which is supported mainly by Federal Funds, has a decline of $238 million, or 12%, in total appropriations, from $1.98 billion in FY2012 to $1.75 billion in FY2013. Total appropriations for the Department of Corrections decline by $83 million, or 6.4%, from $1.31 billion to $1.22 billion, reflecting the Governor's plans to close two prisons and three adult transition centers. At the Department of Children and Family Services (DCFS), total appropriations decline by $85 million, or 6.7%, due to a reduction in General Funds appropriations. The Governor has said he will ask the General Assembly during the fall veto session to use savings from closing prisons to increase funding for DCFS.[97]

The table on the following page shows the largest agencies appropriations by fund included in the revised FY2012 budget compared to the enacted FY2013 budget.

[97] Bill Ruthhart, "Quinn to veto prisons funding, give more to DCFS," *Chicago Tribune*, June 29, 2012.

State of Illinois All Funds Appropriations by Major Agency: FY2012-FY2013 (in $ millions)*				
Agency	FY2012 Revised	FY2013 Enacted	$ Change	% Change
Healthcare and Family Services	**$ 14,968**	**$ 17,748**	**$ 2,780**	**18.6%**
General Funds	$ 6,845	$ 6,804	$ (41)	-0.6%
Other State Funds	$ 7,773	$ 10,594	$ 2,821	36.3%
Federal Funds	$ 350	$ 350	$ -	0.0%
State Board of Education	**$ 10,302**	**$ 9,543**	**$ (759)**	**-7.4%**
General Funds	$ 6,750	$ 6,541	$ (209)	-3.1%
Other State Funds	$ 91	$ 61	$ (30)	-33.0%
Federal Funds	$ 3,461	$ 2,942	$ (519)	-15.0%
Human Services	**$ 5,783**	**$ 5,842**	**$ 59**	**1.0%**
General Funds	$ 3,461	$ 3,256	$ (205)	-5.9%
Other State Funds	$ 562	$ 862	$ 300	53.4%
Federal Funds	$ 1,760	$ 1,723	$ (37)	-2.1%
Transportation	**$ 2,670**	**$ 2,736**	**$ 66**	**2.5%**
General Funds	$ 21	$ 22	$ 1	4.8%
Other State Funds	$ 2,644	$ 2,708	$ 64	2.4%
Federal Funds	$ 5	$ 5	$ -	0.0%
Higher Education**	**$ 2,609**	**$ 2,440**	**$ (169)**	**-6.5%**
General Funds	$ 2,092	$ 1,980	$ (112)	-5.4%
Other State Funds	$ 93	$ 86	$ (7)	-7.5%
Federal Funds	$ 424	$ 374	$ (50)	-11.8%
Commerce and Economic Opp.	**$ 1,983**	**$ 1,745**	**$ (238)**	**-12.0%**
General Funds	$ 32	$ 26	$ (6)	-18.8%
Other State Funds	$ 401	$ 418	$ 17	4.2%
Federal Funds	$ 1,550	$ 1,302	$ (248)	-16.0%
Corrections	**$ 1,306**	**$ 1,223**	**$ (83)**	**-6.4%**
General Funds	$ 1,222	$ 1,137	$ (85)	-7.0%
Other State Funds	$ 84	$ 86	$ 2	2.4%
Federal Funds	$ -	$ -	$ -	na
Children and Family Services	**$ 1,260**	**$ 1,175**	**$ (85)**	**-6.7%**
General Funds	$ 813	$ 707	$ (106)	-13.0%
Other State Funds	$ 440	$ 460	$ 20	4.5%
Federal Funds	$ 8	$ 8	$ -	0.0%
Lottery	**$ 949**	**$ 1,042**	**$ 93**	**9.8%**
General Funds	$ -	$ -	$ -	na
Other State Funds	$ 949	$ 1,042	$ 93	9.8%
Federal Funds	$ -	$ -	$ -	na
Aging	**$ 823**	**$ 882**	**$ 59**	**7.2%**
General Funds	$ 737	$ 784	$ 47	6.4%
Other State Funds	$ 8	$ 13	$ 5	62.5%
Federal Funds	$ 77	$ 85	$ 8	10.4%

*Treasurer's Office, with total FY2013 appropriations of $3.0 billiion, is not included because $2.95 billion is related to debt service on state bonds. See Public Act 97-0685.

**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 Civic Federation and Governor's Office of Management and Budget, July 18, 2012.

The next table shows the agencies with the largest General Funds appropriations for FY2013, again excluding pension contributions and group insurance. The Departments of Transportation, Commerce and Economic Opportunity and the Lottery do not appear in this ranking because most of their funding comes either from Other State Funds or Federal Funds. All of the major agencies have lower General Funds appropriations in FY2013 than in FY2012 except for the Department on Aging, which was discussed above.

State of Illinois General Funds Appropriations by Major Agency: FY2012-FY2013 (in $ millions)

	FY2012 Revised	FY2013 Enacted	$ Change	% Change
Healthcare and Family Services	$ 6,845	$ 6,804	$ (41)	-0.6%
State Board of Education	$ 6,750	$ 6,541	$ (209)	-3.1%
Human Services	$ 3,461	$ 3,256	$ (205)	-5.9%
Higher Education*	$ 2,092	$ 1,980	$ (112)	-5.4%
Corrections	$ 1,222	$ 1,137	$ (85)	-7.0%
Aging	$ 737	$ 784	$ 47	6.4%
Children and Family Services	$ 813	$ 707	$ (106)	-13.0%
Supreme Court	$ 288	$ 281	$ (7)	-2.4%
Secretary of State	$ 260	$ 255	$ (5)	-1.9%
State Police	$ 274	$ 248	$ (26)	-9.5%
Public Health	$ 135	$ 125	$ (10)	-7.4%
Juvenile Justice	$ 124	$ 116	$ (8)	-6.5%
Revenue	$ 126	$ 111	$ (15)	-11.9%
State Comptroller**	$ 108	$ 105	$ (3)	-2.8%
Veterans' Affairs	$ 64	$ 63	$ (1)	-1.6%
General Assembly	$ 57	$ 53	$ (4)	-7.0%
Natural Resources	$ 50	$ 45	$ (5)	-10.0%
Central Management Services	$ 51	$ 32	$ (19)	-37.7%
Attorney General	$ 33	$ 32	$ (1)	-3.0%
Court of Claims	$ 90	$ 30	$ (60)	-66.7%

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

**Excludes $264 million appropriated to the Comptroller's Office in FY2013 to pay down outstanding bills not related to Medicaid.

Source: Email communications between Civic Federation and Governor's Office of Management and Budget, July 18, 2012 and July 24, 2012.

Medicaid

As a program involving several 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.[98] 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.

State Medicaid expenditures are reimbursed by the federal government at a rate known as the Federal Medical Assistance Percentage (FMAP), which varies by state depending on per capita income. The FMAP for Illinois is set at 50%, the lowest rate allowed under federal law.[99]

Appropriations in the State budget are gross amounts, meaning that they represent total authorized spending funded by both the State and federal governments. In the General Funds, for example, a $1 appropriation for Medicaid represents 50 cents in State-funded spending and 50 cents in federally funded spending. Federal reimbursements for State Medicaid spending are a major component of General Funds revenues.

In addition to General Funds, the Illinois Medicaid program receives funding from a number of Other State Funds sources, including rebates paid by prescription drug manufacturers, proceeds from the settlement of tobacco-related litigation and payments by local governments and healthcare providers that are structured to bring in additional federal matching funds.

The following table shows appropriations to HFS' Medical Assistance Program in FY2012 and FY2013. Although General Funds appropriations decline slightly, Other State Funds appropriations increase by more than a third.

HFS Medical Assistance Program Appropriations: FY2012-FY2013 (in $ millions)

	FY2012 Revised	FY2013 Enacted	$ Change	% Change
General Funds	$ 6,716.6	$ 6,640.2	$ (76.4)	-1.1%
Other State Funds	$ 7,857.8	$ 10,572.9	$ 2,715.1	34.6%
Total	**$ 14,574.4**	**$ 17,213.1**	**$ 2,638.7**	**18.1%**

Source: Email communication between Civic Federation and Governor's Office of Management and Budget, August 7, 2012.

Due to the complexity of Medicaid funding, the table above provides little insight into the major changes planned for the program in FY2013.[100] Although the numbers in the table suggest substantial growth in total funding, the State is actually planning $1.36 billion in program cuts

[98] Illinois Department of Healthcare and Family Services, *Medical Assistance Program Annual Report: Fiscal Years 2009, 2010 and 2011*, March 30, 2012, p. 18. Other agencies include the Departments of Human Services, Public Health and Children and Family Services and the Department on Aging. For more information on Medicaid, see the Civic Federation's Institute on Illinois' Fiscal Sustainability, *The Illinois Medicaid Program: An Issue Brief*, May 22, 2009, http://www.civicfed.org/iifs/publications/illinois-medicaid-program-issue-brief (last visited on August 31, 2012).

[99] Kaiser Family Foundation, statehealthfacts.org, *Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier*, http://www.statehealthfacts.org/comparetable.jsp?ind=184&cat=4 (last visited on August 31, 2012).

[100] For simplicity, Medicaid and Medical Assistance will be used interchangeably.

and $240 million in reimbursement rate reductions for healthcare providers.[101] Increased funding in FY2013 will be used to pay down bills that accumulated in FY2012 and adequately fund remaining program costs in FY2013.

The enacted FY2012 budget underfunded the Medicaid program by $1.5 billion, according to an HFS analysis in March 2012.[102] If General Funds appropriations were left unchanged from FY2012 and no policy changes were enacted, HFS expected that the program would be underfunded by $2.7 billion in FY2013 and that unpaid bills would grow to $4.5 billion by the end of that fiscal year. Payment delays to healthcare providers were projected to increase to 300 days, raising questions about Medicaid patients' continued access to care.[103]

The total annual costs of Medicaid have not been reflected in the State budget due to a provision of Section 25 of the State Finance Act that allows Medicaid costs to be paid from future years' appropriations.[104] In general, Section 25 requires that bills incurred in a given year be paid out of that year's appropriation. There is a lapse period, which typically lasts two months, during which next year's revenues may be used to pay this year's bills.[105] However, what is known as the Section 25 exception permits the State to pay Medicaid bills out of future years' appropriations. This exception has allowed the State to appropriate inadequate amounts for Medicaid in order to help balance the budget. In the meantime, Medicaid bills pile up outside the budget.

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

In his FY2013 budget address, Governor Quinn said that the State needed to reduce Medicaid costs by $2.7 billion in order to prevent growth in unpaid bills.[106] In cooperation with HFS officials, a bipartisan working group of legislators considered savings options not expected to run afoul of federal rules.

After the working group was unable to agree on a Medicaid restructuring plan, the Governor in April 2012 presented a proposal to deal with the funding gap.[107] The proposal consisted of $1.38 billion in savings from program changes, $675 million of reimbursement rate reductions for all healthcare providers (except doctors) and a $1 per pack cigarette tax increase that would raise $675 million (including federal reimbursements).

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[101] Illinois Department of Healthcare and Family Services, *FY13 Medical Assistance Budget Actions Associated with Senate Bill 2840-As Passed by the General Assembly on May 24, 2012*.
[102] Illinois Department of Healthcare and Family Services, *Five Year Medical Assistance Budget Outlook*, March 2012.
[103] HFS Director Julie Hamos, *Presentation to the Civic Federation*, March 19, 2012.
[104] 30 ILCS 105/25 (b-4). Use of this Section 25 exception is significantly reduced under Public Act 97-3397, as discussed below.
[105] The lapse periods for FY2010, FY2011 and FY2012 were extended to six months due to the large amount of outstanding bills at the end of the fiscal year.
[106] The text of the Governor's budget speech is available at http://www2.illinois.gov/budget/Documents/Budget%20Book/FY%202013/FINAL%20FY13%20BUDGET%20SPEECH.pdf (last visited on September 4, 2012).
[107] Office of Governor Pat Quinn, *FY13 Medicaid Liability and Spending Reductions: Governor's Proposal to General Assembly*, April 19, 2012.

At the end of the legislative session, the General Assembly approved a Medicaid plan that differed significantly from the Governor's proposal. The plan consisted of a package of bills that were the subject of intense negotiations with healthcare providers.[108] The package included large program cuts and a $1-a-pack increase in the State's cigarette tax. The legislation also included much smaller reductions in reimbursement rates than the Governor's plan, a substantially higher estimate of savings that could be achieved through removing ineligible recipients from the Medicaid rolls, a tax-exemption framework for nonprofit hospitals favored by the Illinois Hospital Association, a new hospital assessment program and a six-month extension of the existing assessment program.[109] The Section 25 exception that permits deferral of Medicaid bills was substantially curtailed.[110] A bill to allow Medicaid coverage for more patients at the Cook County public health system was approved, contingent on the enactment of other Medicaid-related bills.[111]

One part of the $2.7 billion Medicaid package has not been enacted. Senate Bill 2971, as amended by the House, authorizes $151 million in transfers from General Funds to the Healthcare Provider Relief Fund in FY2013.[112] The additional resources would provide roughly $300 million to pay Medicaid expenses though a cycle of State spending and federal reimbursements.[113] The bill was passed by the House but not by the Senate, where members reportedly blocked it to express disapproval of what they considered to be an inadequate level of education funding in the FY2013 budget.[114]

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[108] Illinois Hospital Association, "Legislative Home Stretch: Key Issues Being Decided," *IHA e-Update/Reporter*, May 25, 2012. The package included 97th Illinois General Assembly Senate Bill 2840, passed by the House and Senate on May 24 (Public Act 06890); Senate Bill 2194, passed by the House on May 25 and the Senate on May 29 (Public Act 97-0688); and Senate Bill 3261, passed by the House on May 25 and the Senate on May 29 (Public Act 97-0690).

[109] Hospital assessment programs use hospital funds to bring in additional Medicaid revenues for both hospitals and the State. The measure relating to property tax exemptions for nonprofit hospitals was not included to affect the Medicaid shortfall.

[110] 97th Illinois General Assembly, Senate Bill 3397, passed by the House on May 30 and the Senate on May 31 (Public Act 97-0691).

[111] 97th Illinois General Assembly, House Bill 5007, passed on May 24, 2012 (Public Act 97-0687).

[112] 97th Illinois General Assembly, Senate Bill 2971, as amended by the House, passed by the House on May 30, 2012.

[113] Senate Bill 2971 provides for a total of $229 million in transfers, including the transfers for Medicaid spending.

[114] Rich Miller, "Miller: Cullerton quietly impressive during spring session," *Southtown Star*, June 10, 2012.

The next table shows legislation designed to close the FY2013 Medicaid funding gap.

State of Illinois Legislation to Close FY2013 Medicaid Budget Gap: Projected Savings/Revenues (in $ millions)			
Bill	**Description**	**Value**	**Public Act**
SB2840	Program reductions	$ 1,360	97-0689
	Provider rate cuts	$ 240	
SB2194	Cigarette tax increase and related federal reimbursement	$ 700	97-0688
	New hospital assessment program	$ 100	
	Charity care standards for nonprofit hospitals	na	
SB2971*	Transfer from General Funds to Healthcare Provider Relief Fund and related federal reimbursement	$ 300	na
HB5007**	Early Medicaid expansion for Cook County	$ -	97-0687
SB3397	Phasing out Medicaid bill deferral	na	97-0691
		$ 2,700	

*Passed the House on May 30, 2012 but has not passed the Senate.

**Projected savings from SB2840 includes $16.7 million from elimination of General Assistance program for Chicago adults, who could be covered under the Cook County Medicaid expansion.

Source: Illinois Department of Healthcare and Family Services (HFS), *Final Legislative Package to Save Medicaid, Spring Legislative Session* , May 2012; HFS, *FY13 Medical Assistance Budget Actions Associated with Senate Bill 2840--As Passed by the General Assembly on May 24, 2012* , May 24, 2012.

In addition to the measures listed above, other legislation was enacted to pay down the backlog of outstanding Medicaid bills. A supplemental appropriation increased resources for Medicaid in FY2012, based on a projection of higher than expected revenues.[115] The transfer of $151 million from General Funds to the Healthcare Provider Relief Fund was expected to generate roughly $300 million after federal reimbursements. The increased funding was projected to reduce the Medicaid bill backlog at the end of FY2012 to approximately $1.6 billion.[116] However, those funds and another budgeted transfer for Medicaid had not been made by the end of FY2012, resulting in a year-end backlog of $2.5 billion.[117] These funds are expected to be received by December 31, 2012.

The General Assembly also authorized a $500 million transfer out of General Funds to the Healthcare Provider Relief Fund in FY2013 to pay down the accumulated Medicaid backlog.[118] When matched with federal reimbursements, this will supply approximately $1.0 billion to spend on Medicaid bills and reduce the projected backlog at the end of FY2013 to an estimated $542.6 million.[119]

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[115] Public Act 97-0684.
[116] Email communication between the Civic Federation and the Governor's Office of Management and Budget, August 21, 2012.
[117] Communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 25, 2012.
[118] Public Act 97-0732.
[119] Email communication between the Civic Federation and the Governor's Office of Management and Budget, August 21, 2012.

This projected reduction in the Medicaid backlog assumes that Senate Bill 2971 will be enacted, closing the $300 million gap in the Medicaid funding plan. It also assumes that all of the projected savings and revenues associated with enacted Medicaid measures will be achieved.

The State faces significant challenges in achieving some of its Medicaid savings targets, which involve 69 specific changes.[120] The largest projected saving—$350 million—is related to improved verification of program eligibility that is designed to remove ineligible recipients from the Medicaid program. HFS initially estimated that the effort could reduce costs by $120 million in FY2013.[121] The Illinois Hospital Association argued that the savings could be up to $720 million.[122] The final savings projection—$350 million—was regarded as a victory by the Illinois Hospital Association because it averted the potential for $230 million in additional cuts to reimbursement rates for hospitals and other healthcare providers.[123] HFS has stated that it does not support the $350 million savings projection.[124] The Medicaid legislation passed by the General Assembly required that HFS hire a private vendor to assist in verifying eligibility within 90 days of the effective date of the new law.[125] A two-year, $76.8 million contract has been signed with a private vendor, but the effort is not expected to get underway until January 1, 2013 due to preparation requirements.[126]

Federal approval is required for certain provisions in the new law. In some instances, HFS made changes in advance of receiving required approval from the Centers for Medicare and Medicaid Services; in other cases, the agency is waiting for guidance or formal approval. On July 1, 2012 the agency cancelled coverage for 28,039 adults under a provision in the new law that lowered the income standard for eligibility in the Family Care program, which provides medical services to low-income parents.[127] The cut was projected to save $49.9 million in FY2013.[128] In general, states are not allowed to restrict Medicaid eligibility for adults under provisions of the federal Affordable Care Act that are intended to ensure that coverage remains in place pending implementation of an expansion in 2014. An exception was made for restrictions involving nondisabled adults for states with budget deficits, but federal approval is still required. Federal approval was not needed to end the Illinois Cares Rx program, a prescription drug program for seniors, because the program did not receive federal reimbursement. Coverage was cancelled as

[120] Illinois Department of Healthcare and Family Services, *SMART Act Implementation Status Report*, August 2012.
[121] Office of Governor Pat Quinn, *FY13 Medicaid Liability and Spending Reductions: Governor's Proposal to General Assembly*, April 19, 2012, p. 1.
[122] Illinois Hospital Association, *IHA Medicaid Savings* Alternatives, April 17, 2012.
[123] Illinois Hospital Association, *2012 Legislative Report: An Extraordinary Legislative Session*, p. 5.
[124] Julie Hamos, Director of the Illinois Department of Healthcare and Family Services, statement to the HFS Medicaid Advisory Committee, September 21, 2012.
[125] Public Act 97-0689 (305 ILCS 5/11-5.3).
[126] Illinois Department of Central Management Services, Illinois Procurement Bulletin, IllinoisBid, Reference Number 22027527; email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 24, 2012.
[127] Illinois Department of Healthcare and Family Services, *Medicaid Budget Implementation Status Report*, July 2012, p. 1. The Medicaid legislation reduced the income ceiling for Family Care coverage from 185% of the Federal Poverty Level to 133%. The Federal Poverty Level (FPL) is $23,050 for a family of four. The change also eliminated coverage for those at 185% to 400% of the FPL, who had been grandfathered into the program in 2009, when previous changes were made in eligibility.
[128] Illinois Department of Healthcare and Family Services, *FY13 Medical Assistance Budget Actions Associated with Senate Bill 2840-As Passed by the General Assembly on May 24, 2012*.

of July 1, 2012 for 186,000 people covered by that program, which is expected to save $72.2 million in FY2013.[129]

Many of the Medicaid changes require review by the Joint Committee on Administrative Rules (JCAR), the General Assembly committee that oversees agency rulemaking. The new Medicaid legislation gives HFS the authority to adopt emergency rules that will stay in effect until June 30, 2013.[130] However, JCAR suspended four of the emergency rules at a meeting on August 14, 2012, maintaining that HFS exceeded its authority in issuing the rules.[131] A compromise was reached on certain of the suspended rules, but others remain in dispute, including a measure initially projected to save $30 million that would eliminate Medicaid coverage for an entire hospital stay if a preventable (hospital acquired) condition occurred during the stay.

The State is facing a federal lawsuit from parents of children who are dependent on ventilators, which argues that planned Medicaid cuts violate the Americans with Disabilities Act by forcing the children to receive care in institutions, rather than at home.[132] The changes, which were expected to save $15 million in FY2013, were scheduled to take effect on September 1, but the State was granted a 90-day delay by the federal government.[133] HFS plans to seek legislation amending the hospital assessment program to bring in additional funding for medically fragile and technology dependent children.

If the Medicaid funding gap is not closed, then bills at the end of FY2013 would total more than $542.6 million. This could create problems due to the component of the Medicaid legislation that significantly reduces the State's ability to defer Medicaid bills under the Section 25 exception.[134] The new law limits these deferred liabilities to $700 million in FY2013 and $100 million thereafter. The reduction in Section 25 liabilities is likely to be less dramatic than indicated by the law because the law does not apply to bills incurred by June 30 but received after that date. The law also extends the lapse period for Medicaid bills to six months from the normal two months.

State Group Health Insurance

The State Employees' Group Insurance Program provides health insurance coverage for an estimated 357,738 employees, retirees and dependents of State agencies, State universities, the General Assembly and the judiciary.[135] Participants receive both health insurance and life insurance, but most of the funding relates to health insurance.

General Funds appropriations for State group insurance decline by $886 million, or 61.7%, from $1.4 billion in FY2012 to $550 million in FY2013. Total appropriations decline by $480 million,

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[129] Illinois Department of Healthcare and Family Services, *FY13 Medical Assistance Budget Actions Associated with Senate Bill 2840-As Passed by the General Assembly on May 24, 2012*.
[130] Public Act 97-0689 (5 ILCS 100/5-45(p)).
[131] Pam Adams, "Legislative panel tells state to 'slow down' on some Medicaid cuts," *State Journal-Register*, August 14, 2012.
[132] T.B. v. Julie Hamos, No. 12-5356 (N.D. Ill filed July 9, 2012).
[133] Email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, September 7, 2012.
[134] Public Act 97-0691.
[135] Commission on Government Forecasting and Accountability, *Liabilities of the State Employees Group Health Insurance Program FY2013*, March 2012, p. 7. Retired teachers outside Chicago and retired community college employees outside Chicago participate in separate State health insurance programs.

from $2.5 billion to $2.0 billion, because the decrease in General Funds is partially offset by an increase in Other State Funds.

The following table shows appropriations for State group insurance in FY2012 and FY2013.

State of Illinois Group Insurance Appropriations: FY2012-FY2013 (in $ millions)				
	FY2012	FY2013	$ Change	% Change
General Funds	$ 1,436	$ 550	$ (886)	-61.7%
Other State Funds*	$ 1,079	$ 1,485	$ 406	37.6%
Total	**$ 2,515**	**$ 2,035**	**$ (480)**	**-19.1%**

*Other State Funds appropriations are adjusted to avoid double counting.
Source: Email communication between Civic Federation and Governor's Office of Management and Budget, July 24, 2012.

Governor Quinn recommended FY2013 General Funds appropriations of $1.171 billion for group insurance, citing expected cost reductions stemming from labor negotiations. The appropriation passed by the General Assembly and signed by the Governor reduced this amount by roughly 50%. The General Assembly apparently intends to approve the remaining spending authority for FY2013 later in the year.[136]

In addition to General Funds, the group insurance program receives funding from the State's Road Fund, member contributions, State universities and other sources. The FY2013 Road Fund appropriation proposed by the Governor was also reduced by approximately 50% by the General Assembly. Appropriations for other funding sources increase in FY2013 partly to make up for underfunding in FY2012 and prior years.[137]

After years of debate about whether the State's retiree healthcare benefits were too generous, the State in June 2012 enacted legislation to address the issue.[138] The legislation eliminated provisions of State law under which approximately 90% of the more than 80,000 retirees covered by the State's group insurance program did not pay any healthcare premiums. State law had provided that State employees who retired before January 1, 1998 and those who retired after that date with at least 20 years of service do not pay healthcare premiums.[139] Exceptions included General Assembly members, who can retire with as few as four years of service and not pay any premiums, and judges, who can retire with as few as six years of service and not pay premiums.[140]

[136] Email communication between the Civic Federation and the Governor's Office of Management and Budget, July 6, 2012.
[137] Email communication between the Civic Federation and the Governor's Office of Management and Budget, March 29, 2012.
[138] Public Act 97-0695.
[139] 5 ILCS 375/10. The State has contributed 5% of the premium cost for each full year of service, up to a maximum of 100% for retirees with 20 or more years of service.
[140] General Assembly members elected before January 1, 2011 can retire at age 62 with four years of service; those elected on or after that date must be 67 with eight years of service. Judges elected or appointed before January 1, 2011 can retire at 62 with six years of service; judges elected or appointed on or after that date must be 67 with eight years of service.

The State's cost for retiree health insurance coverage in FY2013 was projected at $684.3 million, while retirees' contributions were estimated at $25.8 million.[141] These figures do not include the cost of coverage for retirees' dependents; all retirees are required to pay premiums for their dependents.

The law that was passed in June 2012 did not specify how retiree health insurance premiums would be determined, leaving that decision to the State's Department of Central Management Services (CMS). CMS has said that retiree premiums, like other healthcare benefits, will be negotiated with the State's unions. Premiums are expected to be based in part on retirees' pensions, with those receiving larger pensions required to pay higher premiums.[142] CMS' decisions on premiums will be subject to review by the General Assembly's Joint Commission on Administrative Rules.

In the meantime, the State faces several lawsuits that seek to overturn the new law.[143] The lawsuits allege that the State's plan violates a provision of the Illinois Constitution that says that membership in any State pension or retirement system is "an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."[144] State officials have maintained that health insurance is not protected by the Constitution.[145]

State group health insurance bills, like Medicaid bills, are covered by the Section 25 exception to the State Finance Act that allows prior years' bills to be paid from future years' appropriations.[146] Unpaid group health insurance bills totaled $1.2 billion at the end of FY2012.[147] As a result of insufficient funds, some healthcare providers still have not been paid by the State for care delivered in the fall of 2011.[148] The backlog is projected to be $1.13 billion at the end of FY2013, based on the assumption that budgeted cost reductions of $250 million are achieved and that additional appropriations are enacted to authorize group health insurance funding for the entire year.[149] The new law that imposes limitations on the deferral of Medicaid bills does not cover health insurance bills.[150]

The State also contributes to the Teachers' Retirement Insurance Program (TRIP) and the College Insurance Program (CIP), which cover retired teachers outside Chicago and downstate and suburban retired community college employees. Unlike most retirees in the State group health program, retirees in TRIP and CIP are required to pay premiums.

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141 Commission on Government Forecasting and Accountability, *Liabilities of the State Employees' Group Health Insurance Program FY2013*, March 2012, p. 13.
142 WBEZ91.5, "State still figuring out contributions for health coverage," July 3, 2012.
143 Doug Finke, "Retired judge sues over new health care charges," *State Journal-Register*, July 9, 2012; Doug Finke, "Retired merit comp employees challenge health premiums," *State Journal-Register*, July 10, 2012; Council 31 AFSCME, "Suit filed to protect health care for state retirees," August 21, 2012.
144 Illinois Constitution, Article XIII, Section 5.
145 Jamey Dunn, "House votes to scale back public retiree health benefits," *Illinois Issues blog*, May 9, 2012.
146 30 ILCS 105/25 (b-4).
147 Email communication between the Civic Federation and the Governor's Office of Management and Budget, September 17, 2012.
148 Illinois Department of Central Management Services, *Notice Regarding QCHP and QCDP Claim Payment Delay*, September 18, 2012, http://www2.illinois.gov/cms/Employees/benefits/Insurance/Pages/QCHPQCDPClaimPaymentDelay.aspx (last visited on September 18, 2012).
149 Email communication between the Civic Federation and the Governor's Office of Management and Budget, March 12, 2012.
150 Public Act 97-0691.

The FY2013 budget includes State contributions to TRIP and CIP that are lower than the amounts required by State law.[151] However, these contributions are covered by continuing appropriation.[152] That means that the full contribution of $86.7 million for TRIP and $4.2 million for CIP will continue to be paid, unless the law is changed.

General Funds Expenditures

Expenditures from General Funds consist of appropriations spent and statutory transfers out. Agency appropriations spent are typically less than enacted agency appropriations because appropriations remain unspent at the end of the fiscal year due to insufficient funding or lower than budgeted expenses. Statutory transfers out are diversions of General Funds to Other State Funds to make debt service payments on bonds and for a wide range of other legislatively required purposes.

General Funds expenditures decline by $1.4 billion, or 4.1%, from $34.4 billion in FY2012 to $33.0 billion in FY2013. The decline is overstated, however, due to the appropriation of only half a year's funding for group health insurance in FY2013. Since FY2009, General Funds expenditures have been virtually flat, with a decrease of nearly $3.0 billion in net agency appropriations offset by increases in pension-related costs. The following table shows General Funds expenditures from FY2009 to FY2013.

State of Illinois General Funds Expenditures: FY2009-FY2013 (in $ millions)

	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Revised	FY2013 Enacted	$ Change FY2009-FY2013	% Change FY2009-FY2013	$ Change FY2012-FY2013	% Change FY2012-FY2013
Agency Appropriations*	$ 24,674	$ 26,738	$ 25,209	$ 24,961	$ 24,011	$ 23,091	$ (3,647)	-13.6%	$ (920)	-3.8%
Less Unspent Appropriations	$ (385)	$ (507)	$ (896)	$ (350)	$ (311)	$ (650)	$ (143)	28.2%	$ (339)	109.0%
Net Agency Appropriations	$ 24,289	$ 26,231	$ 24,313	$ 24,611	$ 23,700	$ 22,441	$ (3,790)	-14.4%	$ (1,259)	-5.3%
Agency Appropriations for Bill Paydown	$ -	$ -	$ -	$ -	$ -	$ 264	$ 264	na	$ 264	na
Pension Contributions**	$ 1,710	$ 2,486	$ 3,466	$ 3,680	$ 4,135	$ 5,100	$ 2,614	105.1%	$ 965	23.3%
Group Insurance	$ 1,055	$ 1,058	$ 1,146	$ 885	$ 1,436	$ 550	$ (508)	-48.0%	$ (886)	-61.7%
Net Appropriations Spent	**$ 27,054**	**$ 29,775**	**$ 28,925**	**$ 29,176**	**$ 29,271**	**$ 28,355**	**$ (1,420)**	**-4.8%**	**$ (916)**	**-3.1%**
Statutory Transfers Out										
Legislatively Required Transfers***	$ 2,735	$ 2,082	$ 2,007	$ 2,399	$ 2,473	$ 2,533	$ 451	21.7%	$ 60	2.4%
Debt Service on Pension Obligation Bonds	$ 467	$ 466	$ 564	$ 1,667	$ 1,607	$ 1,552	$ 1,086	233.0%	$ (55)	-3.4%
Other Debt Service and Statutory Transfers Out****	$ -	$ 660	$ 1,759	$ 739	$ 1,085	$ 601	$ (59)	-8.9%	$ (484)	-44.6%
Total Transfers Out	**$ 3,202**	**$ 3,208**	**$ 4,330**	**$ 4,805**	**$ 5,165**	**$ 4,686**	**$ 1,478**	**46.1%**	$ (479)	-9.3%
Total Expenditures*****	**$ 30,256**	**$ 32,983**	**$ 33,255**	**$ 33,981**	**$34,437**	**$33,041**	**$ 58**	**0.2%**	**$ (1,396)**	**-4.1%**

*Does not include appropriations for group insurance.

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

***Includes transfers payable as of year end.

****Includes interfund borrowing repayment and budget stabilization fund repayment. FY2010 interest on short term borrowing includes $1.0 billion to repay failure of revenue borrowing in FY2009.

*****Totals may not sum due to rounding.

Source: State of Illinois, General Obligation Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1; email communication between Civic Federation and Governor's Office of Management and Budget, July 24, 2012; Illinois State FY2013 Budget, p. 2-31; Illinois State FY2012 Budget, p. 2-26; Illinois State FY2011 Budget, pp 2-10 and 2-20; State of Illinois, General Obligation Bonds, Taxable Series of February 2011, *Official Statement* , February 23, 2011, p. 29; Illinois State FY2010 Budget, pp. 2-12 and 2-24; Governor Pat Quinn, State of Illinois, *Fiscal Year 2013 Budget* , February 22, 2012, p. 13.

Net agency appropriations, excluding group insurance payments, decline by $1.3 billion, or 5.3%, from $23.7 billion in FY2012 to $22.4 billion in FY2013. Since FY2009, net agency appropriations, excluding group insurance payments, have declined by $3.8 billion, or 14.4%, from $26.2 billion. Net agency appropriations were boosted in FY2009 by a supplemental

[151] 5 ILCS 375/6.6(c) and 5 ILCS 375 6.10(c).

[152] 40 ILCS 15/1.3 and 40 ILCS 15/1.4.

appropriation designed to allow the State to take advantage of the enhanced federal reimbursement for Medicaid spending available under the federal stimulus program.[153]

Appropriations for pension contributions increase by $965 million, or 23.3%, to $5.1 billion in FY2013 from $4.1 billion in FY2012.[154] Appropriations for pension contributions have more than doubled from $2.5 billion in FY2009. State contributions to the five State retirement systems are determined by a 50-year funding plan that began in FY1996.[155] After a phase-in period of 15 years, the law requires State contributions at a level percentage of payroll sufficient to achieve a 90% funded ratio by the end of FY2045.[156] The retirement systems calculate and certify the amounts needed each year to meet the requirements of this funding schedule. The combined funded ratio for the five systems stood at 43.3% as of June 30, 2011.[157]

The statutory funding schedule does not require the State to make adequate contributions to keep the combined unfunded liability from growing until approximately 2030.[158] State contributions required by the statutory funding plan have also been less than those required under the reporting standards of the Governmental Accounting Standards Board.[159] The unfunded liability for the five systems totaled $83.1 billion at the end of FY2011.[160]

Total General Funds pension-related payments include debt service payments on pension bonds, which are transferred out of General Funds along with legislatively required transfers.[161] In FY2003 the State sold $10 billion in General Obligation pension bonds, of which $7.3 billion was used to reduce the retirement systems' unfunded liability and roughly $2.2 billion was used for statutorily required contributions in FY2003 and FY2004. The State also issued a total of $7.2 billion of pension bonds in FY2010 and FY2011 to pay for required General Funds contributions. Debt service on pension bonds increases by $1.1 billion, or 233%, to $1.6 billion in FY2013 from $466 million in FY2009.

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[153] State of Illinois, General Obligation Bonds, Taxable Series of February 2011, *Official Statement*, February 23, 2011, p. 15. The American Recovery and Reinvestment Act required that states pay bills owed to doctors, hospitals and nursing homes within 30 days. The supplemental appropriation was needed so that Illinois could pay off past-due bills.

[154] State of Illinois, of Illinois, General Obligation Refunding Bonds, Series of May 2012, *Official Statement Continuing Disclosure*, August 6, 2012. Table 1. This amount includes $10.9 million for the Public School Teachers' Pension and Retirement Fund of Chicago.

[155] Public Act 88-0593. The five State retirement systems are the Teachers' Retirement System (TRS), the State Universities Retirement System (SURS), the State Employees' Retirement System (SERS), the Judges' Retirement System (JRS) and the General Assembly Retirement System (GARS).

[156]The funded ratio shows the percentage of the actuarial accrued liability that is covered by a system's assets.

[157] Commission on Government Forecasting and Accountability, *Report on the Financial Condition of the Illinois State Retirement Systems as of June 30, 2011*, March 2012, p. 25. This figure is based on the market value of assets, without asset smoothing.

[158] Commission on Government Forecasting and Accountability, *Report on the Financial Condition of the Illinois State Retirement Systems as of June 30, 2011*, March 2012, p. 95. The unfunded liability represents the amount by which a system's actuarial accrued liability exceeds its assets. The contribution amount that is adequate to keep the unfunded liability from growing consists of the normal cost, which is the amount needed to cover the present value of benefits earned by system members in a given fiscal year, plus interest on the unfunded liability.

[159] State of Illinois, General Obligation Bonds, Series of March 2012, *Official Statement*, March 15, 2012, p. 52.

[160] Commission on Government Forecasting and Accountability, *Report on the Financial Condition of the Illinois State Retirement Systems as of June 30, 2011*, March 2012, p.25. This figure is based on the market value of assets, without asset smoothing.

[161] For more information on pension bond payments, see p. 48 of this report.

Total pension-related payments increase by $910 million, or 15.8%, to $6.65 billion in FY2013 from $5.74 billion in FY2012. Total pension-related payments represent 20.1% of General Funds expenditures in FY2013, up from 9.0% in FY2009.

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. Legislative transfers increase by $60 million, or 2.4%, to $2.53 billion in FY2013 from $2.47 billion in FY2012. Transfers to the Healthcare Provider Relief Fund increase by $350 million in FY2013, reflecting the plan to pay down accumulated Medicaid bills. The largest legislatively required transfer is to the Local Government Distributive Fund, which receives income tax proceeds for distribution to local governments. Local governments will receive $1.08 billion in FY2013 compared with $1.10 billion in FY2012.

BUDGET DEFICIT AND UNPAID BILLS

The total General Funds budget deficit consists of the sum of operating surplus or deficit and the accumulated deficit from prior years. Due to an operating surplus in FY2013, the total deficit is expected to decline from $5.3 billion at the end of FY2012 to $4.0 billion at the end of FY2013.

General Funds deficits are financed by delaying payments to vendors and local governments and paying those bills from the next fiscal year's revenue. The State has also masked deficits by underfunding Medicaid and group health insurance, which defers those costs to the next fiscal year, and by delaying payment of income tax refunds owed to businesses.[162] Total General Funds bills and other liabilities are roughly estimated to decline from $8.9 billion at the end of FY2012 to $7.6 billion at the end of FY2013.

It is important to note that projected reductions in the deficit and backlog of unpaid bills in FY2013 are based on certain assumptions concerning future legislative action and implementation of the enacted budget. These assumptions are explained below.

Budget Deficit

The FY2013 budget has an operating surplus of $1.4 billion, compared with an operating deficit of $813 billion in FY2012. The FY2013 operating surplus reflects increased federal revenues due to Medicaid reimbursements and reduced agency appropriations.

The total deficit declines from $5.3 billion at the end of FY2012 to $4.0 billion at the end of FY2013. The following table shows the General Funds deficit from FY2009 to FY2013.

State of Illinois General Funds Deficit: FY2009-FY2013 (in $ millions)

	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Revised	FY2013 Enacted
Operating Revenues	$ 29,144	$ 27,090	$ 30,163	$ 33,623	$ 34,398
Operating Expenditures	$ 32,983	$ 33,255	$ 33,981	$ 34,437	$ 33,041
Operating Surplus (Deficit)	**$ (3,839)**	**$ (6,165)**	**$ (3,818)**	**$ (814)**	**$ 1,357**
Borrowing for Operations*	$ 1,000	$ 3,742	$ 5,404	$ -	$ -
Operating Surplus (Deficit) After Borrowing for Operations	$ (2,839)	$ (2,423)	$ 1,586	$ (814)	$ 1,357
Accumulated Deficit from Prior Years	$ (834)	$ (3,673)	$ (6,095)	$ (4,507)	$ (5,321)
Total Deficit**	**$ (3,673)**	**$ (6,096)**	**$ (4,509)**	**$ (5,321)**	**$ (3,966)**

*FY2009 amount represents failure of revenue borrowing repaid in FY2010.

**Totals may not sum due to rounding.

Source: State of Illinois, General Obligation Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1; State of Illinois, General Obligation Bonds, Taxable Series of February 2011, *Official Statement* , February 23, 2011, p. 29.

As previously explained in this report, the enacted FY2013 budget does not include funding for a full year of group insurance expenses or complete funding for projected Medicaid costs. If measures to increase funding to these areas are approved later in the fiscal year and revenues are

[162] For more information on Medicaid, see p. 31 of this report. For more information on group health insurance, see p. 36 of this report. For more information on tax refunds, see p. 24 of this report.

not adjusted, then the operating surplus would decline, reducing resources available to pay down the accumulated deficit. A full year of funding for group insurance would cost an additional $550 million, and pending legislation that includes the Medicaid funding would cost approximately $229 million.[163]

Unpaid Bills and Other Liabilities

General Funds unpaid bills or accounts payable are bills remaining at the end of the fiscal year that must be paid during the lapse period.[164] The State finances its budget deficit by delaying payment of General Funds bills and paying them out of the next year's revenue.

The FY2013 budget has a $1.4 billion operating surplus that will be used to reduce the backlog of accounts payable. This includes $264 million specifically allocated to a new Backlog Payment Fund for payment of outstanding bills that are not related to Medicaid.[165]

As shown in the next table, General Funds unpaid bills reached $6.2 billion at the end of FY2010 and are expected to decline from $5.4 billion at the end of FY2012 to $4.0 billion at the end of FY2013.

State of Illinois General Funds Accounts Payable: FY2009-FY2013 (in $ millions)					
	FY2009 Actual	**FY2010 Actual**	**FY2011 Actual**	**FY2012 Revised**	**FY2013 Enacted**
Accounts Payable Beginning of Year	$ (976)	$(3,953)	$ (6,224)	$ (4,976)	(5,361)
Paydown of Accounts Payable/ (Increase in Accounts Payable)	$ (2,977)	$(2,271)	$ 1,248	$ (385)	1,356
Accounts Payable End of Year	**$ (3,953)**	**$(6,224)**	**$ (4,976)**	**$ (5,361)**	**$ (4,005)**

Source: State of Illinois, General Obligation Bonds, Taxable Series of February 2011, February 23, 2011, *Official Statement* , p. 29; State of Illinois, General Obligation Bonds, Series of May 2012, *Official Statement Continuing Disclosure* , August 6, 2012, Table 1A.

As noted above in connection with the budget deficit, the enacted FY2013 budget does not include funding for a full year of group insurance expenses or complete funding for projected Medicaid costs. If measures to fund these programs are enacted later in the year, resources available to pay down General Funds bills could decline. On the other hand, approval of this funding would reduce deferred Medicaid and group health insurance bills, as explained below.

In addition to General Funds accounts payable, the State has other liabilities of the General Funds that do not appear in the budget. These liabilities consist of deferred Medicaid and group health insurance costs that are covered by the next year's appropriations and paid from future years' revenues. These liabilities, which are permitted by a provision of Section 25 of the State Finance Act, are known as Section 25 liabilities.[166]

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[163] State of Illinois, General Obligation, Series of September 2012, *Official Statement,* September 13, 2012, p. 22.
[164] The lapse period is an additional period after the end of the fiscal year during which revenues from the next fiscal year may be used to pay for spending under the current fiscal year's appropriations. The lapse period usually ends on August 31 but has been extended to December 31 for the last three fiscal years due to the large amount of unpaid bills.
[165] Public Act 97-0685.
[166] 30 ILCS 105/25 (b-4). Section 25 liabilities are calculated by making certain adjustments to year-end unpaid bills, including subtracting lapse period spending and adding bills incurred by June 30 but received after that date.

In the table below, rough projections of General Funds liabilities for Medicaid and group health insurance are provided for FY2013. The Medicaid numbers include only General Funds and related Section 25 liabilities of HFS' Medical Assistance Program. The State allocated $500 million in General Funds to pay down the backlog of Medicaid bills in FY2013. This amount doubles to approximately $1.0 billion when State spending is reimbursed by the federal government. The FY2013 projection assumes that targeted savings of approximately $1.4 billion due to changes in the Medicaid program are achieved. It does not assume that the State passes legislation needed to fully fund Medicaid costs in FY2013.[167]

Due to data limitations, the FY2013 projection of Section 25 liabilities for the group health insurance program is based on the FY2012 estimate. The number assumes $250 million of savings due to ongoing labor negotiations but is increased to reflect the partial funding of group insurance in the enacted FY2013 budget.

Another General Funds liability that does not appear in the budget is unpaid income tax refunds. Unpaid income tax refunds, primarily owed to businesses, reached $735 million at the end of FY2010. The Illinois Department of Revenue has said that it is current on approved but unpaid tax refunds and that it expects to have no such refunds outstanding at the end of FY2013.

General Funds bills and other liabilities are roughly estimated to decline by $1.3 billion, or approximately 14%, from $8.9 billion at the end of FY2012 to $7.6 billion at the end of FY2013.

State of Illinois General Funds Bills and and Other Liabilities: Year End FY2012-FY2013 (in $ millions)

Category	FY2012 Estimated	FY2013 Projected
General Funds Bills	$ 5,361	$ 4,005
Medicaid Bills*	$ 2,036	$ 1,638
Group Health Insurance Claims**	$ 1,400	$ 1,950
Unpaid Income Tax Refunds	$ 70	$ -
Total	**$ 8,867**	**$ 7,593**

*Section 25 General Funds and related Medical Assistance liabilities of the Illinois Department of Healthcare and Family Services. For FY2013, based on currently enacted budget, which does not include approximately $300 million in planned Medicaid funding.

**Section 25 liabilities of the group health Insurance Program. For FY2013, based on currently enacted budget, which does not include $550 million in planned group insurance funding.

Source: State of Illlinois, General Obligation Bonds, Series of September 2012, *Official Statement* , September 13, 2012, pp. 8-12 and 39; email communications between Civic Federation and Governor's Office of Management and Budget, September 20, 2012, Illinois Department of Revenue, September 4, 2012, and Illinois Department of Healthcare and Family Services, September 26, 2012.

[167] 97th Illinois General Assembly, Senate Bill 2971.

DEBT BURDEN AND RATINGS

A significant portion of the State's total expenditures in the annual operating budget include transfers to fund the repayment of the State's outstanding bonded debt. These amounts include principal and interest due in the next fiscal year, which combined make up the State's annual debt service cost.

In FY2013 the State of Illinois owes a total of $3.4 billion in debt service on all outstanding General Obligation (GO) Bonds and revenue bonds, which currently total $32.7 billion.[168] In all the State will pay $24.7 billion in interest on these bonds through FY2052 for a total outstanding debt service cost of $57.5 billion.

Although the total debt service represents the entire annual payment to bond holders, the General Funds payment for FY2013 only totals $2.0 billion, or 6.7% of the State-source General Funds resources. The remaining amounts are paid through transfers from designated revenue sources and transfers from Other State Funds.

Total Debt

Under the General Obligation Bond Act, the State is authorized to issue GO Bonds to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[169] The State has also authorized and issued Pension Obligation Bonds (POBs) under the GO bond statute to increase funding in its pension funds and make the required annual contribution to the State's five retirement systems. 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.

Total outstanding capital purpose GO bonds increased by $642.5 million to $12.1 billion in FY2013 from $11.4 billion in FY2012. In FY2012 the State issued a total of $1.6 billion in capital purpose GO bonds and estimates it will sell $2.0 billion in FY2013.[170]

Illinois also depends on several types of revenue bonds to fund capital projects. Unlike GO bonds, revenue bonds are not guaranteed by the full faith and credit of the State but rather pledge a portion of specific state revenues. The 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. Currently the outstanding Civic Center Bonds total $72.8 million; the State will make its final payment on this debt in FY2021.[171] Although originally financed in part by horseracing taxes, these bonds are now fully repaid by General Funds and are treated more like GO bonds.[172]

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. The State

[168] State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement*, May 1, 2012, pp. 38, 42.
[169] 30 ILCS 330/1 (2001).
[170] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary: Fiscal Year 2013*, August 2012, p. 181.
[171] Illinois State FY2013 Budget, p. 6-12.
[172] 30 ILCS 355, Metropolitan Civic Center Support Act, 1987.

issued a total of $750 million in new Build Illinois Bonds in FY2012 and estimates it will sell an additional $300 million to support capital projects in FY2013.[173]

Total Revenue Bonds outstanding in FY2013 total $5,186.7 million, a decrease of $11.1 million from the total of $5,197.8 million in FY2012.

The State appropriated a total of $17.1 billion in capital projects to be funded by borrowing in FY2010[174] and has sold a total of $6.3 billion of capital GO Bonds and revenue bonds to fund these projects in the ensuing years.[175]

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 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 through FY2015. In FY2011 the State again issued POBs to make its annual contribution to its retirement systems, this time totaling $3.7 billion to be repaid over eight years and completely retired in FY2019.

The $3.5 billion in FY2010 POBs 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. In FY2013 total principal owed on outstanding POBs declined to $15.5 billion from $16.3 billion in FY2012.[176]

[173] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary: Fiscal Year 2013*, August 2012, p 181.
[174] Commission on Government Forecasting and Accountability, *2011 Capital Plan*, April 2010, August 2012, p. 5.
[175] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary: Fiscal Year 2013*, August 2012, p 181.
[176] State of Illinois, General Obligation Bonds, Series September 2012, *Official Statement*, September 13, 2012, p. 38.

The following chart shows the total outstanding principal, interest and debt service for all GO bonds and revenue bonds to be repaid over the life of the bonds.

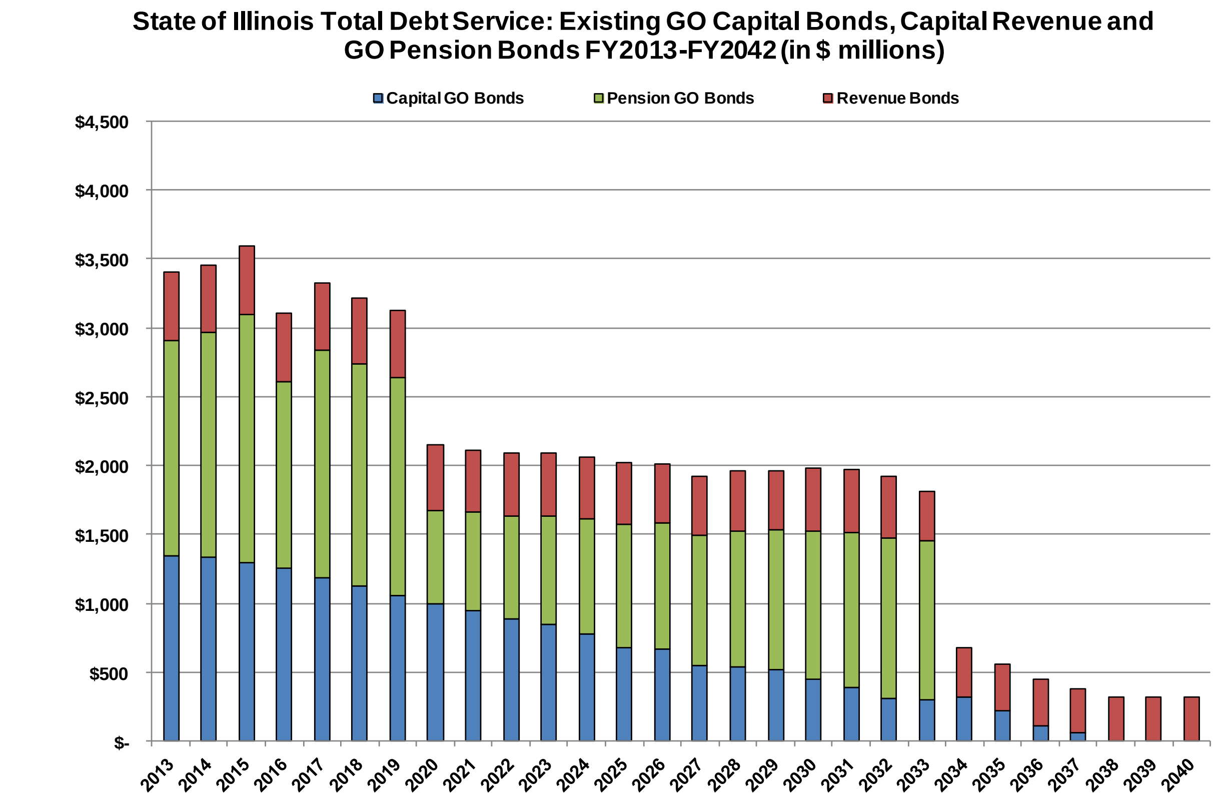
State of Illinois Total Bonded Debt: Principal, Interest and Debt Service FY2012 & FY2013 (in $ millions)				
	FY2012	**FY2013**	**$ Change**	**% Change**
Principal				
Revenue	$ 5,197.8	$ 5,186.7	$ (11.1)	-0.21%
GO Capital	$11,428.9	$12,071.4	$ 642.5	5.62%
GO Pension	$16,272.8	$15,479.0	$ (793.8)	-4.88%
Total	**$32,899.5**	**$32,737.1**	**$ (162.4)**	**-0.49%**
Interest				
Revenue	$ 9,988.4	$ 9,983.0	$ (5.5)	-0.05%
GO Capital	$ 5,917.6	$ 6,009.1	$ 91.6	1.55%
GO Pension	$ 9,539.7	$ 8,754.1	$ (785.7)	-8.24%
Total	**$25,445.7**	**$24,746.2**	**$ (699.6)**	**-2.75%**
Debt Service				
Revenue	$15,186.2	$15,169.6	$ (16.6)	-0.11%
GO Capital	$17,346.5	$18,080.5	$ 734.1	4.23%
GO Pension	$25,812.5	$24,233.1	$ (1,579.5)	-6.12%
Total	**$58,345.2**	**$57,483.2**	**$ (862.0)**	**-1.48%**

Source: State of Illinois, General Obligation Bonds, Series September 2012, *Official Statement* , Septembr 13 , 2012, pp. 38, 43; Illinois State FY2013 Budget, p. 6-10, 6-12.

Debt Service

The State's debt service schedule sets forth the principal and interest amounts due for outstanding bonds on an annual basis. In FY2013 the State is required to pay a total of $3.4 billion for all outstanding GO Bonds, POBs and revenue bonds.[177] This amounts to a $60.9 million increase from the total of $3.3 billion in FY2012.

The following chart shows the total debt service for existing Pension Obligation bonds, GO capital bonds and other capital bonds through FY2040.[178]



Source: State of Illinois, General Obligation Bonds, Series of September 2012, Official Statement, September 13, 2012, pp. 38, 44.

As shown in the graph above, based on the current debt service schedule for all outstanding bonds the State will not see a significant reduction in annual debt costs until after FY2019 when the POBs sold in FY2010 and FY2011 are repaid completely.

It should be noted that the State does not pay for all debt service out of the General Funds. As mentioned above, revenue bonds have specific dedicated sources outside the General Funds. GO capital bonds are also funded through transfers from the Capital Projects Fund, Common School Fund and the Road Fund, which have dedicated revenue sources outside the State's operating budget.

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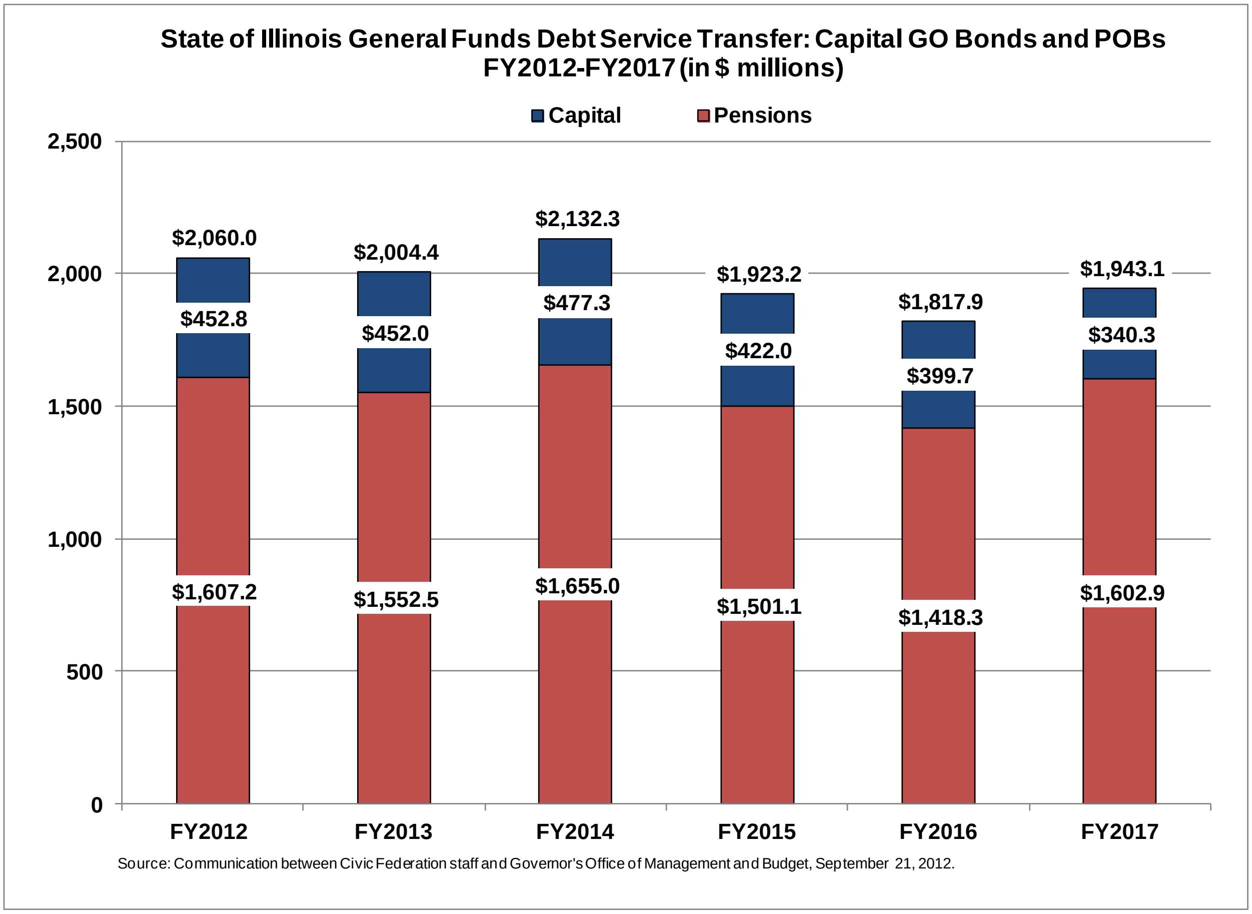
[177] State of Illinois, General Obligation Bonds, Series of September 2012, *Official Statement*, September 13, 2012, pp. 38, 42.

[178] For more information about total debt service see data in Appendix B on p. 58.

The enacted budget includes General Funds debt service transfers totaling $2.0 billion in FY2013, a slight decrease of $55.6 million from just over $2.0 billion in FY2012.[179]

The FY2013 debt service transfer associated with capital GO bonds totals $452.0 million and the amounts attributable to POBs total $1.6 billion. The following chart shows the General Funds debt service transfer for FY2012 compared to the enacted FY2013 enacted budget and estimates through FY2017.



Short-Term Debt

Short-term debt is a financial obligation that must be satisfied within one year. The amount of short-term debt issued is a good measure of budgetary solvency, or a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. The State of Illinois Short Term Borrowing Act governs the State's ability to access short-term capital.[180]

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

[179] Communication between the Civic Federation and the Governor's Office of Management and Budget, September 21, 2012.
[180] 30 ILCS 340 (2004).

for that fiscal year, which must be repaid entirely within the same budget cycle.[181] The State may also borrow up to 15% of the total appropriations for any year if there is a declared failure in revenue.[182] Failure of revenue borrowing must be paid back within 12 months of issuance.

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

The State has not issued short-term debt since FY2011 and does not include any short-term borrowing as part of the FY2013 enacted budget. Rather than relying on short-term debt to finance its deficits, the State has instead extended its lapse period spending (the time available to use subsequent year resources to pay current year expenses) from 60 days to six months in each of the last three fiscal years.[183]

The following chart shows the history of short-term borrowing by the State from FY2003 through FY2013.

Short-Term Debt Certificates Issued: FY2003- FY2013 (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
FY2012	$ -
FY2013	$ -

Source: Illinois State FY2013 Budget, p. 6-5.

181 30 ILCS 340/1 (2004).
182 30 ILCS 340/1.1 (2004).
183 Public Act 97-0732.

Bond Ratings

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

The most recent downgrade to the State's bond ratings took place on August 29, 2012, when Standard & Poor's (S&P) reduced the State's long-term General Obligation (GO) bond rating to A from A+ and issued a negative outlook.[184] This was the third time S&P had reduced the State's bond rating since March 2009, when Illinois was downgraded to AA-. Prior to that downgrade, the State had been rated AA by S&P since at least 1997.[185]

The other two major rating agencies, Moody's Investors Service and Fitch Ratings, have each downgraded the State four times over the same period. However, both increased the State's bond rating in March 2010 due to recalibrations of their entire rating scales and then downgraded the State again in June 2010.

When downgrading the State's GO bonds over the past five years, the rating agencies have highlighted several of the same problems facing Illinois. The State's poor cash position, 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 all factored negatively into the ratings. The agencies' reports consistently questioned Illinois' financial stability due to the long-term challenge of properly funding the retirement systems. The criticism centered on the increasing burden of pension contributions on the State's operating resources as required annual contributions grow to make up for past underfunding and investment losses due to the recession.[186]

Both Moody's and Fitch have listed the outlook for the State as stable but S&P remains negative even after its downgrade, which could signal future reductions.

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[184] Standard & Poor's, "Rating on Illinois Lowered to 'A' from 'A+' on Weak Pension Funding and Continued Structural Deficits; Outlook Negative," *news release*, August 29, 2012.

[185] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, p. 185.

[186] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, pp. 185-187.

The following chart shows the ratings decline for the State's GO bonds over the last five fiscal years compared to the ratings as of September 2012.

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

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

Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013* , August 2012, p. 185; Statndard & Poor's, "Rating On Illinois Lowered To 'A' from 'A+' On Weak Pension Funding And Continued Structural Deficits; Outlook Negative," *news release* , August 29, 2012.

The most recent downgrade from S&P was in response to the State's preparations to issue $50 million in capital bonds in September 2012. Each time a government entity sells bonds, it applies to one or more rating agencies for an opinion on the bonds. The rating agencies then provide an analysis of the creditworthiness of the government and a bond rating for the issuance. The rating agencies charge a fee for this service, which is part of the total cost of the bond sale.

Illinois' GO bonds currently have the lowest rating of all 50 states by Moody's. Ratings for the State's debt from Fitch and S&P are the second lowest among states, ahead of California which is graded A- by both. California is one notch above Illinois according to the Moody's scale. The majority of states are rated AA, while roughly a dozen have a AAA rating from at least one agency.

However, despite the low ratings compared to other states, Illinois' bonds are still considered investment grade. This means that investors can be assured of the government's good credit and face little or no risk of default according to the agencies' rating definitions. The State would need to be downgraded at least five more levels to be considered at risk of default by the issuer or a speculative grade credit.

Speculative grade bonds are sometimes referred to as junk bonds and typically pay much higher rates of interest to investors due to the additional risk of defaulting on the loans.

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

Major Credit Rating Agencies: Ratings Scales and Definitions

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

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

CAPITAL BUDGET

The FY2013 capital budget marks the fourth year of the State's $31 billion *Illinois Jobs Now!* capital program. The capital budget includes reauthorization of $20.7 billion in previously approved projects and $2.0 billion in new appropriations, bringing the total to $22.7 billion.[187]

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 commences. The total spending approved in the FY2013 capital budget includes funding from the State, as well as grants from the federal government and local matching funds to pay for projects.

Although the FY2013 capital budget includes a significant increase in capital spending, the enacted total is less than the increase proposed in the Governor's recommended FY2013 capital budget. The total capital spending approved for FY2013 was $3.0 billion less than the total $24.8 billion in the Governor's recommendation, which proposed $3.0 billion in new grant programs to fund statewide investments in water systems, school technology and state facilities.

The following table compares the capital budget proposed by the Governor for FY2013 to the enacted capital budget.

State of Illinois FY2013 Capital Spending Authorization (in $ millions)				
	FY2013 Rec.	FY2013 Enacted	$ Change	% Change
Reappropriation	$ 19,840.8	$ 20,719.2	$ 878.4	4.4%
New	$ 5,005.9	$ 1,987.1	$ (3,018.8)	-60.3%
Total	**$ 24,846.7**	**$ 22,706.3**	**$ (2,140.4)**	**-8.6%**

Source: Illinois State FY2013 Capital Budget p.86; Email communication between Civic Federation staff and Governor's Office of Management and Budget regarding Public Act 97-0725, August 13, 2012.

The amount of capital spending reauthorized from previous years increased slightly due to some projects spending less of the existing appropriations before the end of FY2012 than was estimated in the Governor's capital budget. The more significant reduction in the FY2013 capital authorization was the $3.0 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. Transportation spending makes up $1.5 billion, or 78%, of the total new 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. This includes $400 million in federal funding for high speed rail, $130 million in federal and local funding for airport projects and $299.2 million in local funding for statewide road program.

The largest new State-funded appropriation is a $200 million increase in funding for the State's wastewater loan program. The largest new State-funded projects specifically included in the

[187] Public Act 97-0725. Email communication between the Civic Federation and the Governor's Office of Management and Budget, August 13, 2012.

enacted FY2013 capital budget are $1.5 million to Sangamon County for maintenance needs at the State Fair Grounds and $1.5 million to the Cook County Health and Hospitals System to pay for medical equipment at Provident Hospital. There are 84 specific projects and grants in the new capital spending that total less than $1.5 million and amount to a total of $33.0 million of the newly enacted projects.

Compared to FY2012, total approved spending in the FY2013 capital budget declines by $4.4 billion. In FY2013 reappropriations decrease by $2.4 billion and new capital spending is down by $2.1 billion. The following table compares the total spending enacted in the FY2013 capital budget to the totals for FY2012.

State of Illinois FY2013 Capital Spending Authorization (in $ millions)				
	FY2012 Enacted	FY2013 Enacted	$ Change	% Change
Reappropriation	$ 23,100.4	$ 20,719.2	$ (2,381.2)	-10.3%
New	$ 4,042.0	$ 1,987.1	$ (2,054.9)	-50.8%
Total	**$ 27,142.4**	**$ 22,706.3**	**$ (4,436.1)**	**-16.3%**

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 97-0725, August 13, 2012.

The State relies heavily on the sale of bonds to fund the capital budget but 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 FY2013 budget are not yet available, but the Governor's FY2013 proposed budget estimated that $13.6 billion, or 54.9% of total capital spending remaining in capital budget, will be paid for with General Obligation (GO) bonds issued by the State.[188] The State has issued $6.3 billion in bonds to pay for capital projects since the capital program began in FY2010.[189]

The package of new revenue sources authorized in FY2010 to pay for the additional debt-related to spending on *Illinois Jobs Now!* consists of the following:[190]

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

The proceeds from these sources are deposited in the Capital Projects Fund and used to pay for debt service on new capital bonds and some ongoing capital expenses. However, the taxes and fees have yet to produce the funding levels projected when *Illinois Jobs Now!* was originally approved.

The majority of the shortfall in capital projects funding is due to the delay in implementation of the legalization and taxation of video gaming. The following table compares the original

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[188] Illinois State FY2013 Capital Budget, p. 86.
[189] Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2013*, August 2012, p.181.
[190] Public Act 96-0034, 96-0037, 96-0038.

legislative projections for annual revenue from the new taxes and fees to support the capital budget and the actual results for FY2010 through FY2012.

Capital Projects Fund: Revenues by Source (in $ millions)				
Source	**Original Projections**	**FY2010**	**FY2011**	**FY2012**
Video Poker Tax	$288 - $534	$ -	$ -	
Lottery Fund	$ 150.0	$ 32.9	$ 54.1	$ 65.2
Sales Tax	$ 65.0	$ 39.0	$ 52.0	$ 52.7
Liquor Tax*	$ 108.0	$ 77.6	$ 105.2	$ 114.8
Vehicle Related	$ 332.0	$ 117.7	$ 294.6	$ 299.7
Investment Income and Other	$ -	$ 0.3	$ (0.0)	$ 0.1
Total	**$934 - 1,189**	**$ 267.5**	**$ 505.9**	**$ 532.5**

*In FY2012, $140.6 million was transferred into the Capital Projects Fund from a protest fund where amounts from FY2010 and FY2011 were held durring litigation. These amounts are included in the years collected above.

Source: Commission on Government Forecasting and Accountability, *Analysis of 2013 Capital Infrastructure for the State of Illinois* , March 2012, p. 13. State of Illinios Comptroller, Online Revenues Query, https://www.wh1.ioc.state.il.us/.

Due to administrative delays, the State Gaming Board also has only recently begun licensing video poker. It is expected that the program will be launched in FY2013 and the first revenues from the 30% tax on video gaming proceeds will be deposited into the Capital Projects Fund.

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.[191]

[191] Commission on Government Forecasting and Accountability, *Analysis of 2013 Capital Infrastructure for the State of Illinois*, March 2012, p. 13.

APPENDIX A: MAJOR BUDGET-RELATED RESOLUTIONS AND BILLS

State of Illinois Budget Resolutions for FY2013		
Resolution Number*	Description	Date Adopted (2012)
HR0707	General Funds revenue estimate	March 1
SR0586	General Funds revenue estimate	March 7
HJR0068	General Funds revenue estimate	March 1 (House); March 7 (Senate)
HR0706	General Funds appropriation allocations	March 29

*HR stands for House Resolution, SR for Senate Resolution and HJR for House Joint Resolution.

Source: Illinois General Assembly website at http://www.ilga.gov/legislation/.

State of Illinois Major Budget-Related Bills for FY2013				
Bill Number*	Description	Public Act Number	Date Signed (2012)	Governor's Vetoes
HB1447**	Pension reform affecting State employees and General Assembly members			
HB5007	Medicaid expansion for Cook County health system	97-0687	June 14	
HB5342**	Tax on offshore oil producers			
HB5440**	Tax on satellite TV providers			
SB1313	Retiree health insurance premiums	97-0695	June 21	
SB1673***	Pension reform affecting all State retirement systems except Judges' system.			
SB2194	Cigarette tax, hospital assessment, charitable exemptions for nonprofit hospitals	97-0688	June 14	
SB2332	Capital re-appropriation	97-0725	June 30	Line item
SB2348	Non-discretionary spending appropriation	97-0685	June 7	
SB2365**	Additional education appropriations			
SB2378	General services appropriation	97-0726	June 30	
SB2409	General services appropriation	97-0727	June 30	Reduction
SB2413	Elementary and secondary education appropriation	97-0728	June 30	
SB2443	Higher education appropriation	97-0729	June 30	
SB2450	FY2012 supplemental appropriation	97-0684	May 18	
SB2454	Human services appropriation	97-0730	June 30	
SB2474	Public safety appropriation	97-0731	June 30	Line item and reduction
SB2840	Medicaid spending reductions	97-0689	June 14	
SB2971****	Budget implementation bill			
SB3168***	Pension reform affecting General Assembly system			
SB3261	Charity care by hospitals.	97-0690	June 14	
SB3397	Limitation on Medicaid bill deferral	97-0691	June 14	
SB3616	Extension of enterprise zones	97-0905	August 7	
SB3802	Budget implementation bill	97-0732	June 30	

*HB stands for House Bill and SB for Senate Bill.

**Passed by Senate but not by House.

***Not passed by either chamber.

****Passed, as amended, by House but not by Senate.

Source: Illinois General Assembly website at http://www.ilga.gov/legislation/.

APPENDIX B: TOTAL DEBT SERVICE

The following chart shows all outstanding General Obligation and Revenue debt service owed by the State of Illinois.

State of Illinois Total Debt Service: Existing, Authorized and Proposed (in $ thousands)				
Fiscal Year	**Capital GO Bonds**	**Revenue Bonds**	**Pension GO Bonds**	**Total Debt Service**
2013	$ 1,345,295	$ 501,314	$ 1,560,951	**$ 3,407,560**
2014	$ 1,330,032	$ 490,331	$ 1,634,080	**$ 3,454,443**
2015	$ 1,298,063	$ 499,900	$ 1,797,883	**$ 3,595,846**
2016	$ 1,255,452	$ 494,986	$ 1,356,454	**$ 3,106,891**
2017	$ 1,188,373	$ 485,090	$ 1,647,338	**$ 3,320,801**
2018	$ 1,121,711	$ 479,215	$ 1,618,616	**$ 3,219,542**
2019	$ 1,053,530	$ 484,707	$ 1,586,106	**$ 3,124,343**
2020	$ 1,000,353	$ 475,894	$ 674,550	**$ 2,150,797**
2021	$ 947,389	$ 445,530	$ 713,413	**$ 2,106,332**
2022	$ 882,774	$ 461,455	$ 749,800	**$ 2,094,029**
2023	$ 849,413	$ 457,512	$ 783,713	**$ 2,090,638**
2024	$ 772,825	$ 448,817	$ 840,150	**$ 2,061,792**
2025	$ 681,026	$ 446,655	$ 892,200	**$ 2,019,881**
2026	$ 665,637	$ 427,008	$ 915,425	**$ 2,008,070**
2027	$ 552,543	$ 429,715	$ 936,100	**$ 1,918,358**
2028	$ 540,256	$ 444,529	$ 979,225	**$ 1,964,011**
2029	$ 519,641	$ 424,255	$ 1,018,525	**$ 1,962,421**
2030	$ 445,011	$ 457,155	$ 1,079,000	**$ 1,981,166**
2031	$ 383,853	$ 454,794	$ 1,134,375	**$ 1,973,022**
2032	$ 310,471	$ 451,915	$ 1,159,650	**$ 1,922,035**
2033	$ 297,350	$ 361,653	$ 1,156,100	**$ 1,815,102**
2034	$ 316,236	$ 359,901	$ -	**$ 676,137**
2035	$ 216,769	$ 336,132	$ -	**$ 552,900**
2036	$ 109,539	$ 335,569	$ -	**$ 445,108**
2037	$ 57,728	$ 322,507	$ -	**$ 380,234**
2038	$ -	$ 322,507	$ -	**$ 322,507**
2039	$ -	$ 322,507	$ -	**$ 322,507**
2040	$ -	$ 322,507	$ -	**$ 322,507**
2041	$ -	$ 322,571	$ -	**$ 322,571**
2042	$ -	$ 322,576	$ -	**$ 322,576**
2043	$ -	$ 322,568	$ -	**$ 322,568**
2044	$ -	$ 322,568	$ -	**$ 322,568**
2045	$ -	$ 322,568	$ -	**$ 322,568**
2046	$ -	$ 322,568	$ -	**$ 322,568**
2047	$ -	$ 322,567	$ -	**$ 322,567**
2048	$ -	$ 322,564	$ -	**$ 322,564**
2049	$ -	$ 322,565	$ -	**$ 322,565**
2050	$ -	$ 322,455	$ -	**$ 322,455**
2051	$ -	$ 322,571	$ -	**$ 322,571**
2052	$ -	$ 322,570	$ -	**$ 322,570**
Total	**$ 18,141,269**	**$ 15,169,623**	**$ 24,233,652**	**$ 58,189,690**

Source: State of Illinois, *Official Statement, $50 Million General Obligation Bonds, Series of September 2012* , September 13, 2012, pp. 38. 44.