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The Civic Federation

177 North State Street, Suite 400, Chicago, IL 60601 • 312.201.9066 fax 312.201.9041 • civicfed.org

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For more information, contact Laurence Msall at (312) 201-9044

ILLINOIS' FY2015 BUDGET WILL INCREASE UNPAID BILL BACKLOG FOR FIRST TIME SINCE FY2012

Spending Plan Halts Illinois' Recent Fiscal Progress

(CHICAGO) – An analysis released today by the Institute for Illinois' Fiscal Sustainability finds that the FY2015 budget represents a return to unsustainable fiscal practices including borrowing for operations and underfunding known costs. This spending plan will increase Illinois' backlog of unpaid bills for the first time since FY2012. The full 77-page report is available at www.civicfed.org/iifs.

Fiscal progress prior to FY2015 included reining in agency expenses, reducing the unpaid bill backlog and fully accounting for previously hidden agency costs.

"Before this budget, we had several indications that Illinois was capable of addressing its enormous fiscal problems," said Laurence Msall, president of the Civic Federation.

"The gimmicks of this year's short-sighted budget send the opposite message and move Illinois in the wrong direction."

The State of Illinois faced one overriding fiscal issue in FY2015: how to deal with the expected drop in revenues caused by the phase-out of temporary income tax rate increases enacted in 2011. Income tax revenues are projected to decline by \$1.9 billion in FY2015 when the higher rates are scheduled to start rolling back mid-year. Rather than keeping the higher rates or cutting spending, the FY2015 budget relies on short-term measures and budgetary gimmicks.

The FY2015 budget closes a \$642 million deficit with \$650 million of interfund borrowing that will need to be repaid within 18 months. The State is also using \$600 million of FY2014 revenues to fund FY2015 Medicaid costs. General Funds expenditures appear to decline in FY2015, but actually increase by \$528 million due to this shifting of funds from year to year and between State accounts. The increased spending includes additional Medicaid-related payments to healthcare providers, funding for elementary and secondary education and increased pension contributions. The budget also includes spending reductions for several agencies such as the Department of Human Services and the Department of Corrections.

This spending plan will increase the State's backlog of unpaid bills for the first time since FY2012. After reaching a high point of \$8.8 billion in FY2012, the backlog declined to \$6.0 billion at the end of FY2014 and will increase to an estimated total of \$6.4 billion at the end of FY2015. Additionally, the budget fails to fund nearly \$500 million in known expenses, including payroll, which will require either a supplemental appropriation in FY2015 or a shutdown of programs. All of these gimmicks will make it even harder to balance the budget in FY2016, the first full fiscal year with lower income tax rates.

The State's financial outlook is further clouded by uncertainty about the implementation of major pension changes enacted in December 2013. State pension contributions would have declined by an estimated \$1.2 billion in FY2016 under the new pension law compared with existing statutorily required contributions, but the law has been put on hold due to legal challenges.

The Institute for Illinois' Fiscal Sustainability at the Civic Federation is made possible by a generous grant from the John D. and Catherine T. MacArthur Foundation. The Institute's mission is to improve the State's decision-making process by providing timely fiscal policy analysis and recommendations to State officials, the media and the public through education and digital outreach. Please visit www.civicfed.org/iifs for more information.



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