

Fact Sheet: The High Cost of Doing Nothing

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Because the Illinois legislature failed to act during the spring legislative session, both of the temporary state income tax increases that became law under the Taxpayer Accountability and Budget Stabilization Act of 2011 (TABSA)¹ will begin to phase down halfway through Fiscal Year (FY) 2015, which begins on July 1, 2014. Under TABSA, the personal income tax rate will decline from 5 percent to 3.75 percent, and the corporate income tax rate will drop from 7 percent to 5.25 percent beginning on January 1, 2015.

Many proponents of belt tightening maintain that the loss of revenue this will cause will not seriously threaten the state's capacity to provide core services. The data, however, say something quite different. Indeed, as illustrated in the following analysis of the FY2015 General Fund budget, in this case there is a very high cost of doing nothing.

1. The FY2015 General Fund Budget Authorizes \$35.2 Billion in Spending

- Of that amount, \$10.7 billion—or nearly 30.4 percent—represents nondiscretionary spending on “Hard Costs” (e.g. repayment of accrued pension debt, current pension contributions, debt service on bonds, and statutory transfers).²
 - Although this is less than the \$11.9 billion in Hard Costs paid through the General Fund in FY2014, half of this reduction is because the state pre-paid a portion (\$600 million) of FY2015 Hard Costs in FY2014.³
- That leaves \$24.5 billion to fund current services, which means the state will implement a year-to-year cut to spending on services. In fact, total appropriations for spending on all services in FY2015 is scheduled to be \$407 million—or 1.6 percent—less than FY2014 in nominal, non-inflation adjusted dollars.⁴

Figure 1
FY2015 General Fund Service Appropriations Compared to FY2014 Final (\$ Millions)⁵

Category	FY2014—Final (including supplemental appropriations)	FY2015 (As passed by the General Assembly)	\$ Difference	% Difference
Healthcare (including Medicaid)	\$7,172	\$7,229	\$57	0.8%
Early Childhood Education	\$300	\$300	\$0	0%
K-12 Education ⁶	\$6,387	\$6,305	(\$82)	-1.3%
Higher Education	\$1,991	\$1,990	(\$1)	-0.1%
Human Services	\$5,086	\$4,797	(\$289)	-5.7%
Public Safety	\$1,830	\$1,623	(\$207)	-11.3%
Group Health	\$1,446	\$1,565	\$119	8.2%
Other	\$1,269	\$1,233	(\$37)	-2.9%
Total Spending (Gross)	\$25,483	\$25,043	(\$440)	-1.7%
Unspent Appropriations	(\$533)	(\$500)	N/A	N/A
Total Spending (Net)	\$24,950	\$24,543	(\$407)	-1.6%

- This cut to spending on current services is due to the revenue loss caused by the phase down of the temporary tax increases, and worsens a long-term trend. Indeed, total spending on services in FY2015 will be at least \$4.7 billion less in nominal dollars than five years ago, in FY2009.⁷

- In real terms, Illinois has been significantly cutting its investment in services over the last 15 years. In fact, in FY2015, spending on the core services of education, healthcare, human services, and public safety—which collectively account for \$9 out of every \$10 in General Fund service spending—will be 28 percent less than in FY2000 after adjusting for inflation.⁸

2. FY2015 Revenue Estimates

- The initial FY2015 General Fund revenue estimate adopted by the General Assembly in March of 2014 was \$34.49 billion.⁹ That represented a year-to-year decrease in General Fund revenue of \$2.17 billion from FY2014 levels.¹⁰
- Realizing it would be impossible to cut \$2.2 billion in spending from last year's levels, the House instead increased the General Fund revenue estimate for FY2015 upward to \$35.35 billion.¹¹ That \$860 million increase in estimated FY2015 General Fund revenue was based on:
 - Increasing the estimated revenue from the personal income tax by \$200 million;¹²
 - Increasing the estimated revenue from utility taxes by \$10 million;¹³ and
 - Borrowing \$650 million from other state funds, which is effectively a one-time revenue source. Of course, because that \$650 million is borrowed, it will have to be paid back.
- The remaining revenue loss from FY2014 levels is addressed through spending cuts to services, reduced Hard Costs, and pre-paying a FY2015 statutory transfer, as delineated in Figure 2.

Figure 2
How the State Covered \$2.2 Billion Year-to-Year
Shortfall in Revenue from FY2014 to FY2015

Item	Amount (\$ Millions)
Increased Revenue Projection	\$210
Borrowing from Non-General Funds	\$650
Cuts to Services	\$407
Year-to-Year Hard Cost Reduction	\$600
Pre-Paying FY2015 Statutory Transfer	\$600
Total	\$2,467

3. FY2015 Accumulated Deficit

- The accumulated deficit for the FY2015 General Fund budget passed by the General Assembly is projected to be \$6.4 billion.
- Figure 3 details how that \$6.4 billion deficit is calculated.

Figure 3
Projected FY2015 General Fund Deficit (\$ Billions)¹⁴

Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
(i)	Projected FY2015 Revenue	\$35.4	FY2015 Hard Costs	\$10.7	\$24.7
(ii)	Revenue After Hard Costs	\$24.7	Estimated Accumulated Deficit Carry Forward from FY2014	\$6.5	\$18.2
(iii)	Projected Net FY2015 General Fund Revenue Available for Services	\$18.2	Projected Net General Fund Service Appropriations	\$24.5	(\$6.4)
Projected Accumulated FY2015 General Fund Deficit		(\$6.4)			
Projected Deficit as a Percentage of General Fund Service Appropriations		-26.1%			

Note: This is a conservative projection that understates the deficit because it does not include incurred but not budgeted liabilities.

4. Looking Forward -- Things Get Much Worse

- The Governor's Office of Management and Budget currently estimates that revenue in FY2016 will decline to \$31.8 billion,¹⁵
 - This means the 2016 budget would have **\$3.6 billion less** in revenue than FY2015, and nearly **\$5 billion less** than FY2014.

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Endnotes

¹ Public Act 96-1496.

² Debt service on bonds and statutory transfers from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014); pensions from House Bill 6096 of the 98th General Assembly. Statutory transfers in this report less than GOMB because \$600 million for Healthcare Provider Relief Fund transfer taking place in FY2014 and by \$78 million for transfers that there was no statutory authority for in FY2015, see GOMB, *General Funds Transfer Out Detail* (Springfield, IL: March 26, 2014).

³ House Bill 6060 of the 98th General Assembly, passed in May of 2014, appropriated \$600 million to be transferred from the General Fund to the Healthcare Provider Relief Fund in FY2014. Without that supplemental appropriation that transfer would have taken place in FY2015.

⁴ Based on CTBA analysis of House Bills 6093, 6094, 6095, 6096, and 6097 of the 98th General Assembly for FY2015 appropriations, and FY2014 appropriations from GOMB, "Operating Budget Detail," March 2014, *Excel file* and including supplemental appropriations in House Bills 3793 and 6060 of the 98th General Assembly.

⁵ CTBA analysis of House Bills 6093, 6094, 6095, 6096, and 6097 of the 98th General Assembly for FY2015 appropriations, and FY2014 appropriations from GOMB, "Operating Budget Detail," March 2014, *Excel file* and including supplemental appropriations in House Bills 3793 and 6060 of the 98th General Assembly. Categories may not add to totals due to rounding.

⁶ FY2015 appropriation for K-12 Education excludes \$200 million from the Fund for Advancement of Education that is appropriated for General State Aid. The Illinois State Board of Education includes that \$200 million in its FY2015 General Fund budget report.

⁷ FY2015 appropriations from CTBA analysis of House Bills 6093, 6094, 6095, 6096, and 6097 of the 98th General Assembly. FY2009 appropriations from GOMB, *Illinois State Budget: Fiscal Year FY2010* (Springfield, IL: March 18, 2009), CH 2-10.

⁸ Appropriations for FY2000 from Illinois Economic and Fiscal Commission, *FY2002 Budget Summary* (Springfield, IL: September 2001) and Illinois Economic and Fiscal Commission, *Fiscal Year 2001 Report on the Liabilities of the State Employees' Group Insurance Program* (Springfield, IL: March 2000), 2. FY2000 appropriations adjusted using Employment Cost Index and Midwest Medical Care CPI (for Healthcare), and historic year-to-year population growth.

⁹ House-Joint Resolution 80 of the 98th General Assembly.

¹⁰ This is based on estimated FY2014 total General Fund revenue of \$36.7 billion. COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

¹¹ House Resolution 1157 of the 98th General Assembly.

¹² COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

¹³ COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

¹⁴ Numbers may not add due to rounding.

¹⁵ GOMB, *Fiscal Year 2015 5 Year Blueprint Not Recommended* (Springfield, IL: March 2014).