

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 \$35.3 Billion in Spending

- Of that amount, \$10.8 billion—or 30.5 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
- 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.³

Figure 1
FY2015 General Fund Service Appropriations Compared to FY2014 Final (\$ Millions)⁴

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 ⁵	\$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 FY2009.⁶

- 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.⁷

2. FY2015 Revenue Estimates

- The initial FY2015 General Fund revenue estimate adopted by the General Assembly in March of 2014 was \$34.49 billion.⁸ That represented a year-to-year decrease in General Fund revenue of \$2.17 billion from FY2014 levels.⁹
- 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.¹⁰ 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;¹¹
 - Increasing the estimated revenue from utility taxes by \$10 million;¹² 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 majority of the remaining revenue loss from FY2014 levels is addressed through spending cuts to services and pre-paying a FY2015 statutory transfer, as delineated in Figure 2.

Figure 2
How the State Covered 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 Net Spending on Services	\$407
Pre-Paying FY2015 Statutory Transfer	\$600
Total	\$1,867

- The final revenue loss balance is covered by the \$500 million in FY2015 appropriations that will not be spent ("unspent appropriations"), as shown in Figure 1.

3. FY2015 Accumulated Deficit

- The accumulated deficit for the FY2015 General Fund budget passed by the General Assembly is projected to be \$6.5 billion.
- Figure 3 details how that \$6.5 billion deficit is calculated.