



The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

Frequently Asked Questions About The Civic Federation's Fiscal Rehabilitation Plan for Illinois

Q: Why is the Civic Federation and the Institute for Illinois' Fiscal Sustainability providing the fiscal rehabilitation plan?

A: Given the sheer size and complexity of the state's fiscal crisis, the Civic Federation Board of Directors decided the Federation should research the causes of the State's funding and spending problems and provide a fiscally reasonable plan to address the crisis.

Q: How did the State of Illinois get into this mess?

A: The State fiscal crisis has been many years in the making. For at least thirty years, the state has underfunded its pension promises to state workers. Since 2002, the State of Illinois has run a General Funds (the State's checkbook) deficit, usually because of a deficit carrying over from the prior fiscal year. The scope and reach of the crisis has been made worse by inaction on the part of successive General Assemblies and Governors to curb spending and reform the pension system.

Q: I've been hearing that the State's been in crisis for years. What makes this crisis different?

A: The scope, reach and danger of this crisis are the difference. Illinois has a nationally-recognized pension funding debacle. The State's creditworthiness coming under increased scrutiny by the bond houses and rating agencies, with the result that Illinois' debt rating has been downgraded several times over the past year. Debt rating downgrades increase the cost for the state to borrow and therefore increase the cost of state government as a whole. Illinois' bond rating is the second-lowest in the nation, just a few steps above junk status. Previous crises did not affect the state's ability to borrow or provide services. The State's late payment of bills is threatening critical services for Illinois' most vulnerable residents, with many social service providers funded by the State are facing budget cuts, layoffs, and even going out of business.

Q: Why is the State of Illinois' deficit so big?

A: See the tutorial.

Q: What is the goal of the Illinois rehabilitation plan?

A: The Civic Federation's main goal in producing the Illinois rehabilitation plan is to inform the Governor and General Assembly about a range of possible paths out of the State's fiscal crisis. The Federation also developed a *fiscally reasonable* plan it could recommend among all of the possible choices.

Q: How is this report different from the other reports I've read on what the State should do to end its crisis?

A: The Civic Federation's recommended plan to end the State fiscal crisis relies on several best-practice principles for fiscal responsibility; the other plans we outline rely on other priorities. The Civic Federation's goal also includes ending the state's structural deficit in addition to closing the budget deficit. The Civic Federation's base principles are:

1. The Civic Federation opposes any tax increases until and unless the State of Illinois implements public pension reforms such as a two-tiered pension system and cuts spending significantly.
2. The State of Illinois must not borrow to pay its operating expenses.
3. The State of Illinois must fully fund its pension obligations according to state statute.
4. The State of Illinois, having accepted federal stimulus funds, should not make cuts or changes that would jeopardize that funding.
5. The State of Illinois must address its structural deficit by bringing spending in line with revenues for a sustainable solution.

Q: What is the Civic Federation's proposed plan to end the state fiscal crisis?

A: The Civic Federation's plan can be summed up by three Rs:
REFORM AND REDUCE, then RAISE

- First, the State must enact **reforms** of its retirement systems, including increased employee contributions and reduced benefits for future employees.
- Second, the State must **reduce** expenditures by at least \$2.5 billion. This includes rolling back spending to FY2007 levels. Exceptions should be made for Medicaid to prevent the loss of federal stimulus funds and general state aid for education as a State priority, both of which should be maintained at FY2010 levels.

The Civic Federation opposes any revenue increases until these first two steps are taken.

IF pension reform and budget cuts are enacted, then the State should **raise** revenue:

- Increase in the individual income tax from 3% to 5% and the business income tax from 4.8% to 6.4%. This would raise \$6 billion in new funds for the State.
- Repeal the income tax exemption for federally taxed portions of retirement and Social Security income to raise \$1.6 billion at the new income tax rate of 5%.
- Additional proposed measures include increasing employee contributions to health insurance, as well as business tax changes and a cigarette tax increase.

If this budget plan were enacted, the State would pay down 84% of its \$12.8 billion deficit by the end of FY2011. The remaining \$2.1 billion budget gap could then be closed in FY2012 by limiting expenditures to FY2007 levels until the backlog of unpaid bills is paid off. In

FY2013 and beyond, the revenues generated by this plan will be needed to fund increased statutory pension payments. *None of the money will be available to be used to fund new programs or expand spending in areas other than retirement system contributions.*

Q: Who funded this project?

A: Four local foundations provided funding for the Fiscal Rehabilitation Plan for the State of Illinois:

- The John D. and Catherine T. MacArthur Foundation
- The Joyce Foundation
- McCormick Foundation
- The Chicago Community Trust