Fiscal Year 2010 Budget

Governor Pat Quinn, State of Illinois

March 18, 2009

Tough Choices

Reform. Responsibility. Recovery.

Fiscal Year 2010 Budget
Governor Pat Quinn

Table of Contents

3	A struggling national economy
7	Economic downturn in Illinois
16	Governor's approach, priorities
17	Reforming the system
33	Making tough, responsible choices
37	Road to recovery in the Land of Lincoln
40	Closing the gap
41	Appendix

A Struggling National Economy

- The national economy has been in a deep recession since December 2007. It is predicted to be one of the longest economic downturns since the Great Depression.

Real Growth in Gross Domestic Product

FY 2007	FY 2008	FY 2009*	FY 2010*
2.0	2.4	- 1.5	-2.9

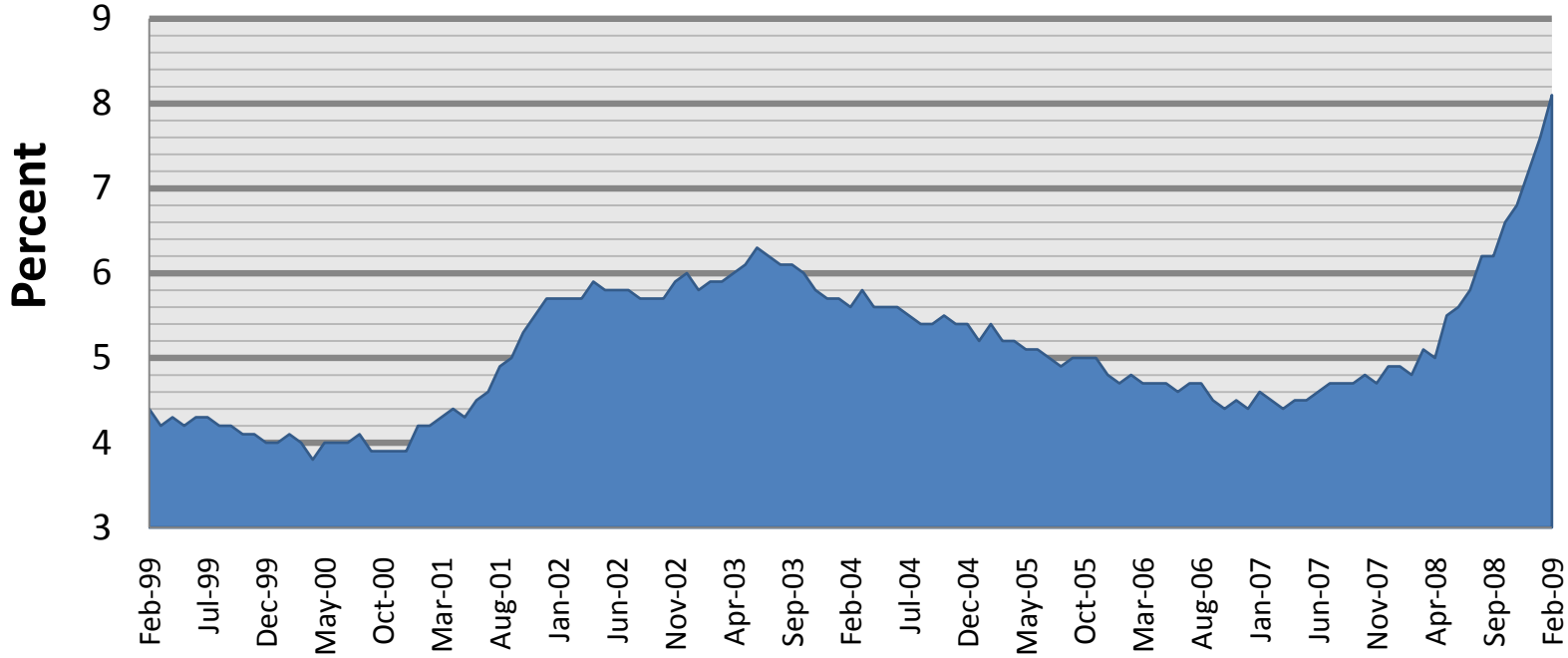
* Estimated

Source: Global Insight Data, February 2009

- More than **4.4 million jobs** have been lost since the recession began. Losses are expected to continue well into 2010.
- Over the past year, global stock markets had their **values cut in half**, destroying over $30 trillion of paper wealth.
- Housing starts are projected to **decline 43.6 percent** in fiscal year 2009 and an additional 12 percent in fiscal year 2010.
- Over 850,000 families lost their homes in 2008 while foreclosure filings increased a record 81 percent. That's over **3.1 million filings**.

We are facing the greatest national economic challenge of our lifetimes.

U.S. Unemployment Rate Since February 1999



- **651,000 jobs** were lost in February 2009 and the unemployment rate surged to **8.1 percent** - the highest in 25 years.
- There are now **12.5 million unemployed** people in the United States.
- Each week in February, more than **600,000** people filed new claims for unemployment insurance.

American Recovery and Reinvestment Act

The *American Recovery and Reinvestment Act* is a $787 billion plan to jump-start the U.S. economy and create jobs. It will help modernize health care, improve schools, build and repair infrastructure, and invest in the clean energy technologies of the future. The plan will:

- Create or save more than **3.5 million jobs** nationally over the next two years;
- Enact the largest increase in funding for the nation's **roads, bridges, and mass transit** systems since the creation of the national highway system in the 1950s;
- Computerize Americans' health records, **reducing medical errors**, and saving billions of dollars;
- Invest in the **renewable energy industry** and double domestic renewable energy capacity;
- Increase **college affordability** for seven million students nationally.

How Illinois Compares

Combined FY 2009 and FY 2010 Deficits from 10 Largest States

State	FY 2009 and Projected FY 2010 Deficit
California	$39.6 billion
New York	$15.4 billion
Illinois	$11.6 billion
Florida	$8.1 billion
North Carolina	$5.3 billion
Georgia	$3.8 billion
Texas	$3.5 billion
Ohio	$3.2 billion
Pennsylvania	$2.3 billion (FY09 only)
Michigan	$1.8 billion

Source: *Center for Policy and Budget Priorities "State Budget Troubles Worsen"* February 10, 2009 and Governor's Office of Management and Budget

Economic Downturn in Illinois

- The Illinois economy, like the national economy, is in a deep recession.
- Employment is forecasted to decline by 1.6 percent in fiscal year 2009 and an additional 2.6 percent in fiscal year 2010.

Real Growth in Gross State Product

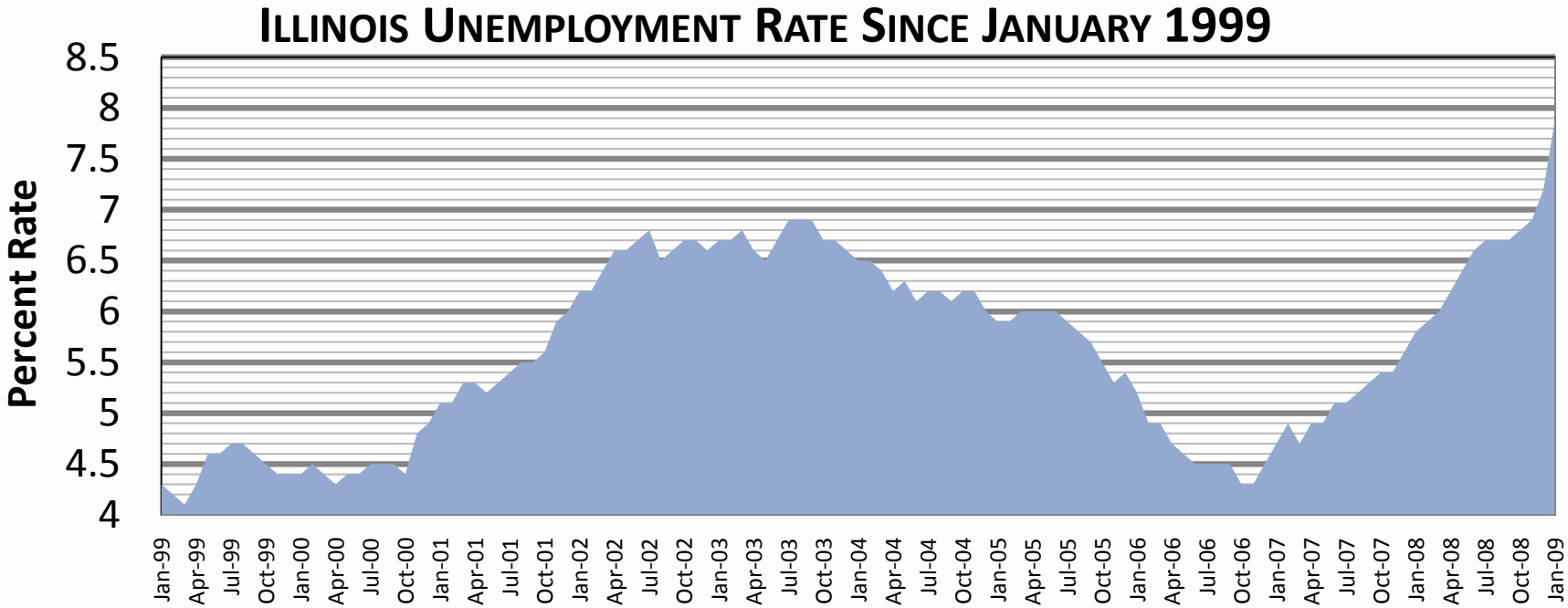
FY 2007	FY 2008	FY 2009*	FY 2010*
1.6	1.9	- 1.8	-3.3

* Estimated Source: Global Insight – Pessimistic estimates as of February 13, 2009

- Housing starts fell an average of **25 percent** in fiscal years 2007 and 2008, and Global Insight predicts that total Illinois housing starts will decrease by **48.3 percent** in fiscal year 2009.
- More than 14,200 homes in Illinois received a foreclosure filing in February 2009, an increase of 62 percent over last year.
- Major job losses are expected to continue in manufacturing, construction and retail.

We are facing historic challenges that will require swift, responsible action.

Unemployment is High and Rising



Source: *Illinois Department of Employment Security, Economic Information and Analysis*

- The Illinois unemployment rate surged to **7.9 percent** in January, the highest rate in over 15 years, and higher than the national average during the same month.
- It is expected to climb to **9.7 percent** in fiscal year 2010.
- In January, there were **518,600 Illinoisans** out of work – more than any month since November 1985.

How Illinois Compares

Illinois vs. National Economy*

	Illinois	U.S.
Retail Sales	- 4.4 %	- 3.9 %
Personal Income	- .03 %	- .03 %
Employment	- 2.6 %	- 2.9 %

Source: BEA, U.S. Bureau of Census, BLS, IDES

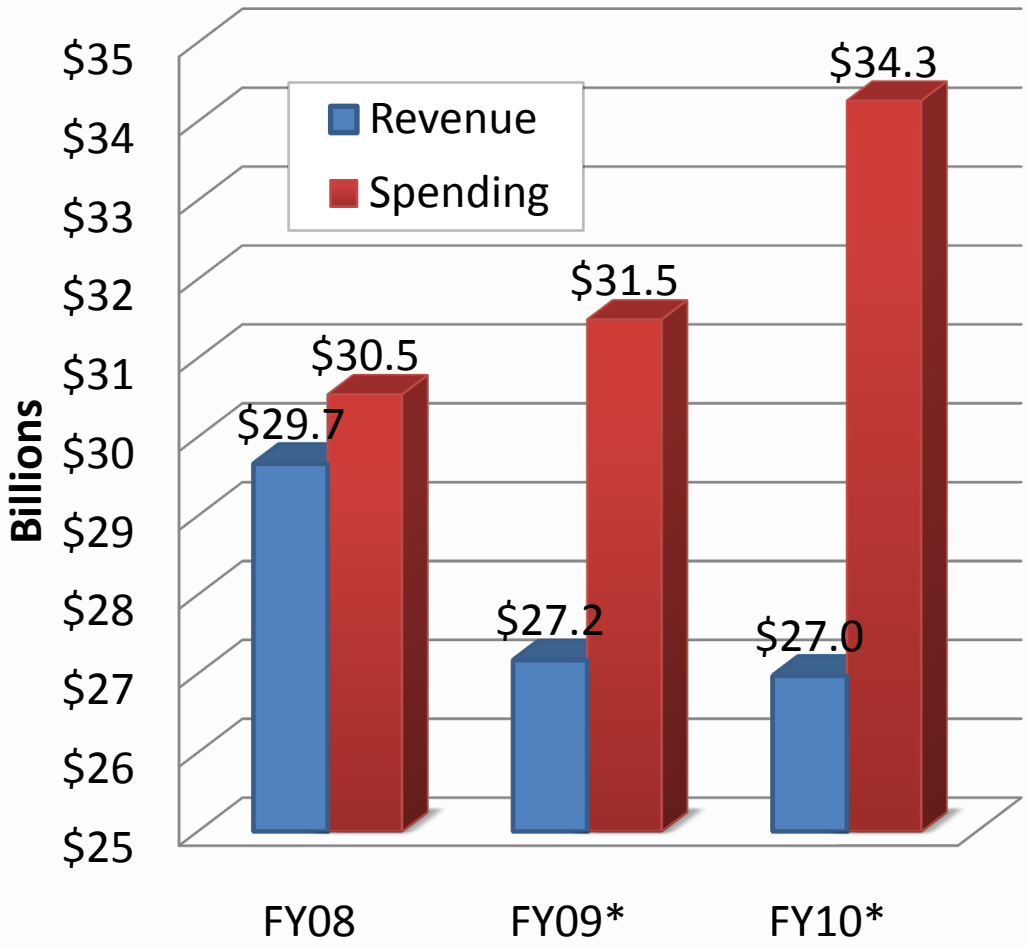
*Estimated percent change (fiscal year 2009 to fiscal year 2010)

Revenue / Spending Projections

- Revenue is expected to decrease by $2.5 billion in fiscal year 2009 (from fiscal year 2008), and is projected to continue this decline through most of fiscal year 2010.

- Increases in Medicaid, social services, employee benefits, and other required costs mean that spending would be $34.3 billion in fiscal year 2010 without reform and cuts.

This creates a projected $11.6 billion deficit through fiscal year 2010.



* Projected

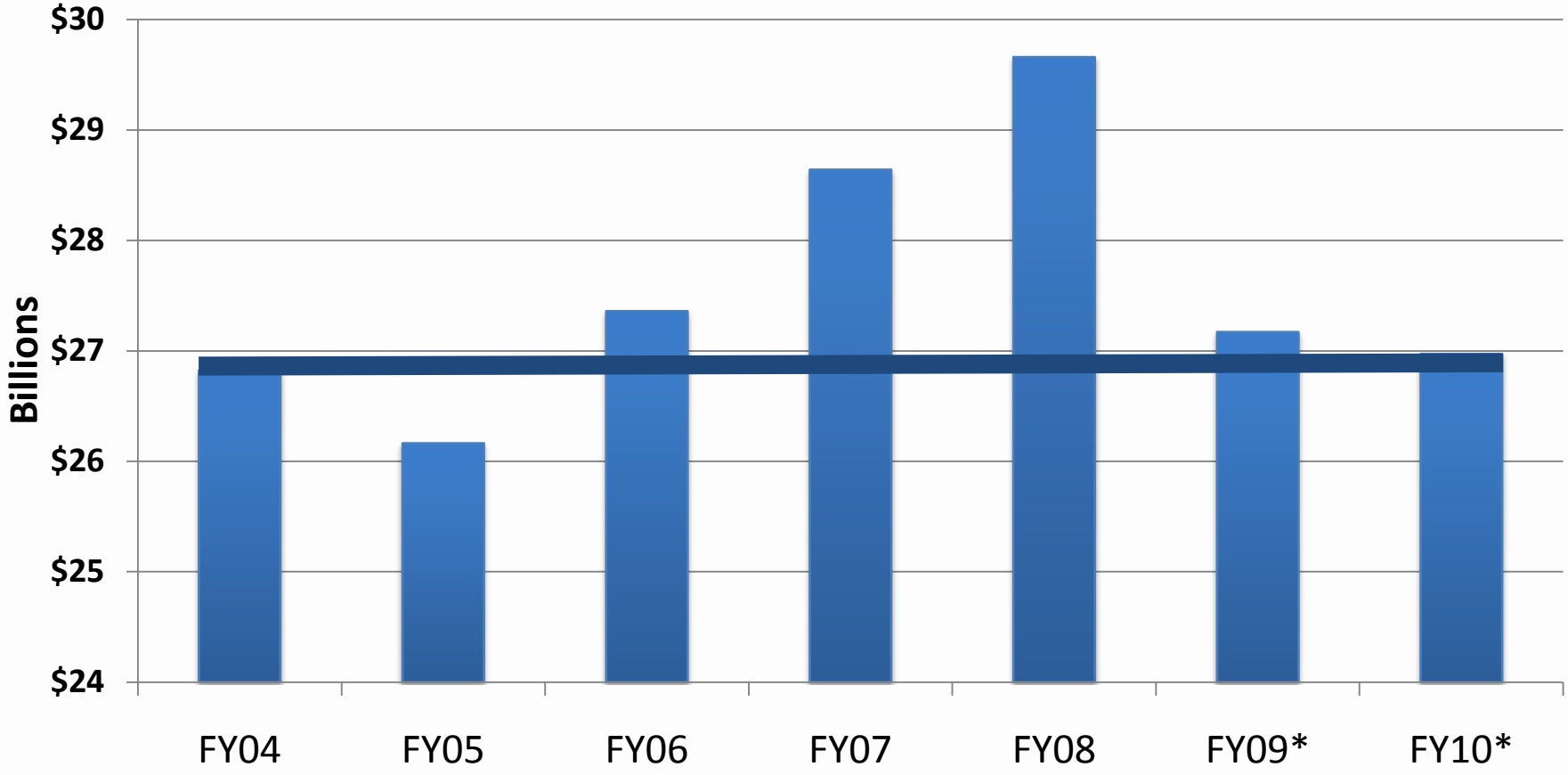
Source: Governor's Office of Management and Budget

Without Reform

	Fiscal Year 2009	Fiscal Year 2010
Revenues	$27.2 billion	$27 billion
Spending	$31.5 billion	$34.3 billion
Deficit	**$4.3 billion**	**$7.3 billion**

Combined deficit: $11.6 billion

Revenue Since Fiscal Year 2004



If no action is taken, fiscal year 2010 revenues would match 2004 levels.

* Projected

Where We Stand

The Situation

- Historic economic challenges
- Declining revenues
- Increased spending pressures

The Result

- An $11.6 billion deficit, and a state that can't pay its bills on time.

The Reality

- Balancing the budget solely through deep cuts will hurt our citizens and further damage our economy.

Tough Choices Must Be Made

Consequences of Inaction

Cuts alone would take the state back to 2004 funding levels:

- 800,000 people, including children, seniors and people with disabilities would lose health care coverage;
- Over 34,000 teachers would be laid off, class sizes would increase by 25 percent and per-pupil spending (Foundation Level) would return to $4,810 from $6,089;
- 35,000 children would lose access to high-quality preschool;
- More than 10,000 seniors served by homemakers would lose their services;
- We would be forced to close one of four Illinois veterans' homes;
- 17,000 fewer students would receive MAP Grants and 60,000 additional eligible applicants would be put on the waiting list;
- We would have to lay off nearly 200 state police officers – over five percent of the force – jeopardizing public safety.

Fiscal Year 2010 Budget Blueprint

In these tough economic times, we must chart a fiscally responsible course for Illinois while creating jobs and protecting families.

Governor Quinn's Budget Priorities:

- **Reform** – Make state government honest, ethical and transparent; reform the state pension systems; and make the tax system fair for working families.
- **Responsibility** – Close the budget gap but protect Illinois' children and families; preserve our commitment to education; reduce the Medicaid payment cycle; and increase health care for veterans.
- **Recovery** – Jump-start Illinois' economy with a comprehensive jobs plan that will build new schools; repair our aging roads and bridges; improve mass transit; create "green" jobs; and maximize the federal recovery money Illinois receives.

Ethics Reform

Governor Quinn created the Illinois Reform Commission, which is examining ethics in state government and offering recommendations to make Illinois honest, ethical and transparent.

He also ordered state agencies to fully and quickly respond to Freedom of Information Act (FOIA) requests. They must now presume "in favor of disclosure" when responding to requests; apply exemptions narrowly; and make more information available online.

sunshine
Illinois Accountability Project

Illinois Sunshine Project

This project will develop a comprehensive electronic library to provide instant access to copies of all public documents appropriate for disclosure, improving the slow and cumbersome FOIA process.

Taxpayer Action Board

The Taxpayer Action Board will identify and work to solve the state's major fiscal hurdles.

Members will be making bold recommendations to cut waste, improve efficiency and bring new approaches to difficult fiscal issues.

The Taxpayer Action Board will provide a new and powerful voice to help Illinois confront the tough fiscal challenges ahead.

STATE SALES TAX HOLIDAY

- Tax reform should make life easier for struggling Illinois families.
- A back-to-school sales tax holiday in August would reduce the tax burden on families with children.
- A 10-day sales tax holiday would also help spur the state's economy.
- Qualifying items would include clothing and footwear for $100 or less (per item) and school supplies.

A Fair Tax System

Working families in Illinois are overburdened by the state's unfair tax code.

For 40 years, Illinois' personal exemption hasn't kept up with the cost of living.

Struggling Illinois families are feeling the burden.

Studies have shown that Illinois has one of the most unfair tax codes in the country.*

This is a once-in-a-lifetime opportunity to reform Illinois' tax code.

We must reform the state tax system to ensure fairness for working families.

*Institute on Taxation and Economic Policy, 2006

Tax Reform

Increased Personal Exemption

- When the state income tax was first enacted in 1969, the personal exemption was $1,000. For a family of four this was $4,000, approximately the same as the federal poverty level (FPL). The exemption for a family of four is now $8,000 - **less than 38 percent of the FPL.**
- Tripling the personal exemption - from $2,000 to $6,000 - will help families who are struggling and burdened by the state income tax during the recession.
- A family of four will pay no state income tax on the first $24,000 they earn.

Individual Income Tax

- This budget increases the individual income tax rate by 1.5 percentage points to 4.5 percent.
- Paired with a more generous personal exemption, many working families will now pay less than before.

Illinois Income Tax for a Family of Four

Family Income	Current Tax*	Proposed Tax*	Amount Change	Percent Change
$30,000	$588	$162	-$426	**- 72%**
$45,000	$1,002	$783	-$219	**- 22%**
$60,900	$1,225	$1,225	$0	**0%**
$75,000	$1,373	$1,519	$146	**11%**
$100,000	$1,890	$2,295	$405	**21%**

* Illinois individual income taxes (IIT) are calculated as a percent of federal Adjusted Gross Income (AGI), which is estimated at 92% of total family income and estimates are adjusted for federal deductibility for incomes over $60,000, assuming these taxpayers itemize deductions and have no state additions or subtractions.

What This Means For a Sample Family of Four
Making $45,000 per year

Current	
Income	$45,000
Estimated Adjusted Gross Income (92%)	= $41,400
Exemptions	- $8,000
Illinois Taxable Income	= $33,400
Illinois Income Tax Rate	x 3%
Illinois Income Tax	**= $1,002**

Proposed	
Income	$45,000
Estimated Adjusted Gross Income (92%)	= $41,400
Exemptions	- $24,000
Illinois Taxable Income	= $17,400
Illinois Income Tax Rate	x 4.5%
Illinois Income Tax	**= $783**

This family saves $219 or 22% on its state income taxes.

What This Means For a Sample Family of Four
Making $75,000 per year

Current	
Income	$75,000
Estimated Adjusted Gross Income (92%)	= $69,000
Exemptions	- $8,000
Illinois Taxable Income	= $61,000
Illinois Income Tax Rate	x 3%
Illinois Income Tax Before Federal Deductibility	$1,830
Estimated Federal Deductibility (25%)	- $457
Illinois Income Tax	**= $1,373**

Proposed	
Income	$75,000
Estimated Adjusted Gross Income (92%)	= $69,000
Exemptions	- $24,000
Illinois Taxable Income	= $45,000
Illinois Income Tax Rate	x 4.5%
Illinois Income Tax Before Federal Deductibility	$2,025
Estimated Federal Deductibility (25%)	- $506
Illinois Income Tax	**= $1,519**

This family would only pay an additional $166 or 11 percent.

THE FACTS

This is tax relief for working families – the largest in a generation.

Over five million Illinoisans will pay the same or <u>less than before</u>.

Income Taxes in Neighboring States

How Illinois compares for a family of four, making $60,000 annually

State	Marginal Tax Rate	Exemption	What the Family Pays
Illinois (proposed)	**4.5%**	**$24,000**	**$1,193**
Illinois (current)	3%	$8,000	**$1,204**
Indiana	3.4%	$4,000	**$1,364**
Iowa	7.92%	$4,310	**$2,585**
Kentucky	5.8%	$2,100	**$2,352**
Missouri	6%	$15,100	**$1,910**
Wisconsin	6.5%	$18,940	**$1,955**

This family will pay <u>less</u> than before, and significantly less than they would pay in a neighboring state.

Cutting Costs

These actions will cut the $11.6 budget gap by $1.3 billion.

- Ordered extra spending cuts in fiscal year 2009 – **$100 million**
- Held the line on cuts in fiscal year 2010 - **$500 million**

  For example:

  - Mental health grants - $12 million
  - Afterschool programs - $6 million
  - Developmental disability grants - $26 million
- Require state employees to take four furlough days (excluding workers who provide direct patient care or public safety) - **$36 million**
- Increase health care contributions from state employees and retirees - **$200 million**

Additional Cuts

- Across-the-board two percent reductions in grant programs, excluding health care and education programs - **$80 million**
- Cuts and efficiencies throughout various state agencies - **$390 million**

  For example:
  - Consolidate Historic Preservation Agency into Department of Natural Resources, and combine two labor boards - $2.3 million
  - Consolidate leases - $6 million
  - Maintain services at fiscal year 2009 levels for seniors and persons with disabilities - $44 million

These actions will cut the $11.6 billion budget gap by $1.3 billion.

Pension Reform

The Problem

Due to chronic underfunding since the 1970s and the recent stock market decline, the pension systems are currently only 54.3 percent funded.

Over the last six months of 2008, stock market losses increased the unfunded liability from $54 billion to $73 billion.*

The unfunded liability is a constant stress on the state budget, requiring money that could be used to provide critical services such as health care, education, and public safety.

Additionally, the state has five public employee retirement systems with no uniformity. They have different benefits, employment contributions, retirement ages, and death and disability benefits.

* Source: Commission on Government Forecasting and Accountability

Pension Reform

The Solution: Modernization

State employees deserve a secure retirement after years of service.

This budget strengthens the state retirement systems and makes employee benefits more affordable, now and in the future.

Plan changes will apply to new employees only.

It will bring their benefits in line with changes in Social Security and other public pension systems.

These reforms will reduce Illinois taxpayers' liability by $162 billion in 2045.

Pension Reform

Retirement Age

Adjust the retirement age for new employees, match Social Security requirements and other public pension systems.

Benefit Formula

Participants covered by Social Security would earn 1.5 percent of final pay per year of service. Those not covered by Social Security would earn 2 percent.

Cost of Living Adjustments

The COLA would be 50 percent of the consumer price index or three percent, whichever is lower, which is in line with other public retirement systems.

Employee Contributions

Current employees will increase their contribution by 2 percentage points - a reasonable amount for their future retirement.

SHARED SACRIFICE

Tax Code Changes - $287 million

Examples:

- Prevent businesses from sheltering income and avoiding taxes when they create subsidiaries on the outer continental shelf or in U.S. territories;
- Join the other 22 states that are not coupled with the 2004 federal legislation granting large business tax cuts;
- Tax the insurance purchased by large businesses from foreign insurance companies in the same way as smaller businesses and individuals.

Corporate Income Tax - $350 million

- Increase the corporate income tax rate to 7.2 percent. Corporations that do not earn any profits will still not pay any tax.

Protecting Families

Despite these tough economic times, this budget protects Illinois' children, families and most vulnerable citizens.

Health Care

Pay our bills on time by reducing the Medicaid payment cycle to 30 days from the current 90+ days.

Education

Increase funding for P-12 education by $174 million and higher education by $40 million, ensuring that our students are not hurt by the economic crisis.

Gas Tax

Hold the line on a gas tax increase when people are already struggling to make ends meet.

Protecting Families

Veterans

Fully open the 80-bed expansion at LaSalle Veterans' Home, plan a $50 million ($17 million state funding), 200-bed Chicago veterans' home, and expand the Veterans Care health care program.

Food Pantries

Provide $1 million to food pantries across Illinois, ensuring that struggling families have access to nutritious food during these difficult times.

Natural Resources

Properly fund the state's parks to provide Illinoisans affordable tourism options during a stressful economic time.

Paying Providers On Time

The Problem

- For years, Illinois has delayed health care payments as a gimmick to balance the budget on the backs of Illinois health care providers.
- This forced many Illinois hospitals, pharmacists and nursing homes wait over three months to get paid.

The Solution

- The American Recovery and Reinvestment Act gives Illinois $2.9 billion over three years to pay down the payment cycle from 90+ days to 30 days.
- To take full advantage of the federal recovery funding, we must keep a 30-day payment cycle through the end of December 2010 and maintain the current Medicaid eligibility standards.

Investing In Education

New Investment

Illinois is eligible for $2 billion in federal recovery funds to support elementary, secondary, and higher education and avoid cuts below the FY 09 funding levels:

- $800 million in fiscal year 2009 to support K-12 education;
- $1.2 billion in fiscal year 2010 to support K-12 and public higher education;
- This funds an increase of $174 million for K-12 education and $40 million for higher education in FY 10.

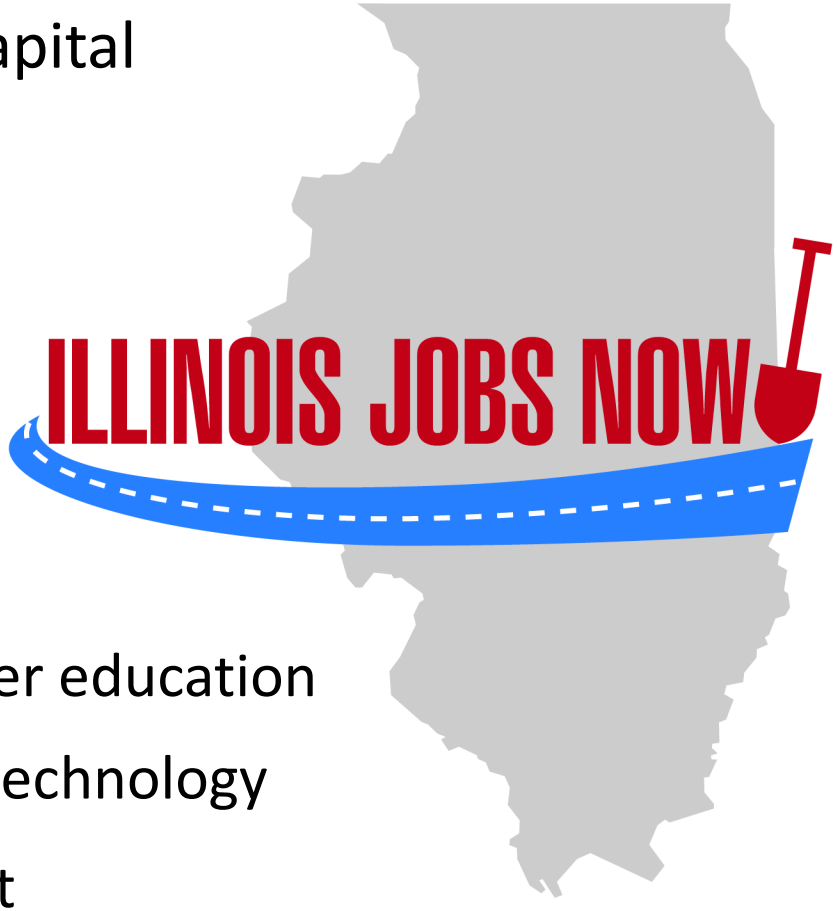
Accountability

With the increased investments in education comes increased accountability. To qualify for the recovery funds Illinois must meet four assurances:

- Standards and high quality assessments;
- Pre-K to college and career data systems;
- Teacher effectiveness and distribution of qualified teachers;
- Support and intervention for the lowest-performing schools.

After an era of fiscal irresponsibility and mismanagement, we must right the course of the state's economy.

Illinois Jobs Now! is a $26 billion capital plan that will support **340,000 jobs** across Illinois.



It will invest:

- $14 billion for roads and bridges
- $5 billion for public transit
- $4 billion for schools, including higher education
- $2 billion environmental / energy / technology
- $1 billion for economic development

ILLINOIS HAS NOT HAD A JOBS PLAN IN OVER A DECADE.

Illinois Jobs Now!

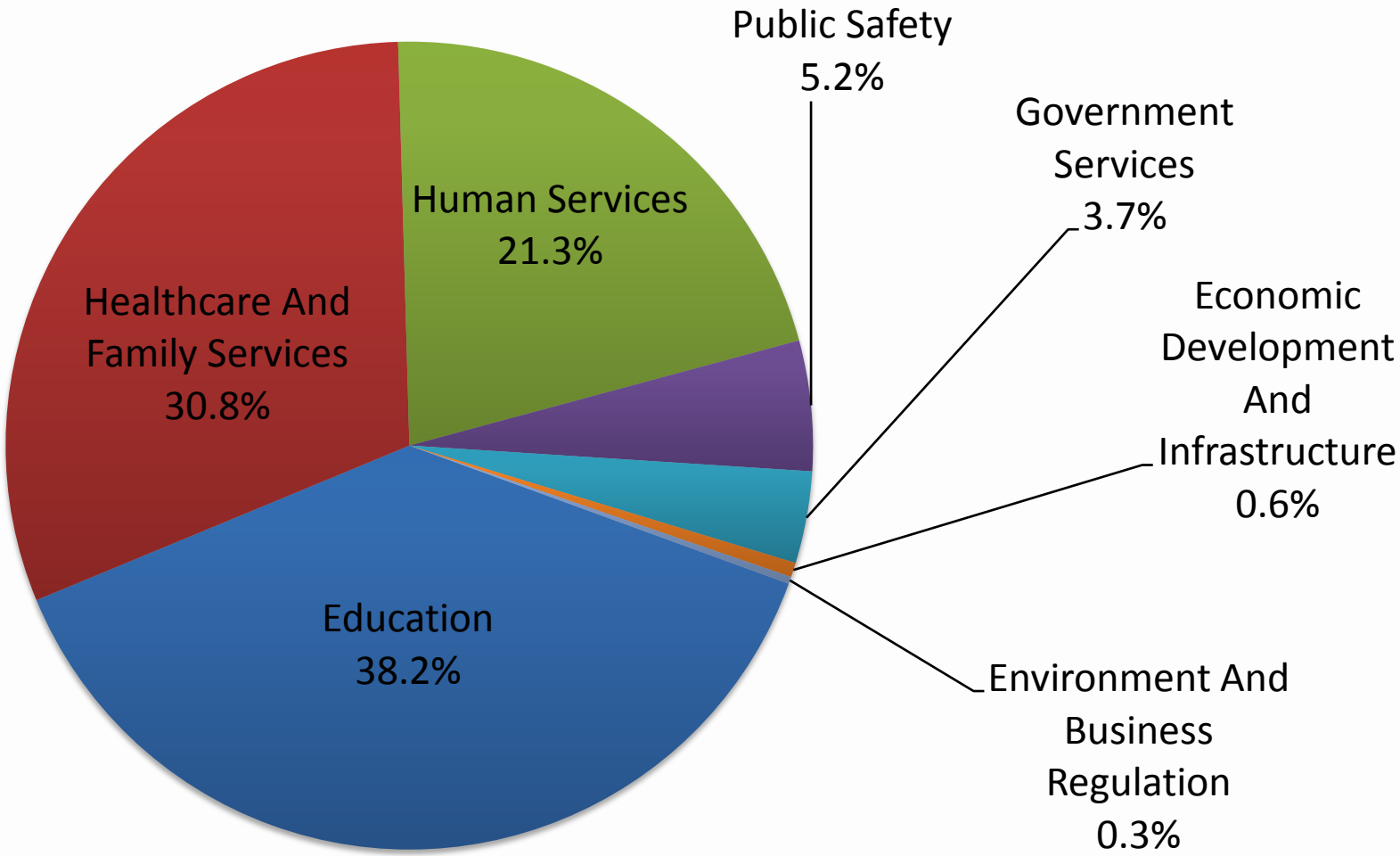
Funding

- The $26 billion Illinois Jobs Now! plan is funded through a combination of state, federal and local funds.

- Roads and bridge construction will be funded by modest increases in the motor vehicle registration fee, driver's license fees, and, in part, money from the Road Fund.
- Mass transit improvements will be funded by an increase in vehicle transfer fees.

Closing The Gap

CLOSING THE $11.6 BILLION FY2009-FY2010 BUDGET DEFICIT						
THE DEFICIT	FY2009		FY2010		FY09-FY10	
REVENUE		$27,170		$26,972		$54,143
SPENDING		$31,487		$34,261		$65,748
FISCALYEAR DEFICIT IF NO BUDGETARY ACTIONS		($4,317)		($7,289)		($11,606)

DEFICIT CLOSING ACTIONS	FY2009		FY2010		FY09-FY10	
REVENUE ACTIONS						
Federal Stimulus dollars	$2,155		$1,843		$3,998	
Individual & Corporate Income Tax Rate increases	$0		$3,207		$3,207	
All Others (Loopholes, Fees, Fund Sweeps)	$199		$1,054		$1,253	
NET REVENUE ADJUSTMENTS		$2,354		$6,104		$8,458
SPENDING ACTIONS						
Pension Funding decreases	$550		$2,296		$2,846	
Medicaid - Pay down backlog (one-time payment)	($1,491)		$0		($1,491)	
All Other Spending decreases	$155		$1,303		$1,459	
Sub-Total of Non-Pension decreases		($1,336)		$1,303		($32)
NET SPENDING ADJUSTMENTS		($786)		$3,599		$2,813
DEFICIT CLOSING BUDGETARY ACTIONS		$1,569		$9,703		$11,272
DEFICIT AFTER BUDGETARY ACTIONS		($2,748)		$2,414		($334)

General Funds Total - $28.4 Billion