

SUMMARY OF FY 2017 BUDGET PROPOSAL

(PRESENTED TO THE RATING AGENCIES)

STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET



PRESENTATION PARTICIPANTS

- **GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET**
 - Tim Nuding, *Director of Governor's Office of Management and Budget*
 - Kim Fowler, *Chief Legal Counsel*
 - Alexis Sturm, *Deputy Director for Debt, Capital, and Revenue*
 - Kelly Hutchinson, *Director of Capital Markets*

FY16 BUDGET UPDATE



FY2016 REVENUE UPDATE

FY 2016 Revised Revenues

- Under current statutes, total General Funds revenues for FY2016 Estimated Budget are projected to be \$31,712 million, a reduction from FY2015 base revenues of \$4,176 million (11.6%)
- Current forecast does not include an estimate for transfers of excess balances from other state funds as occurred in fiscal year 2015.
- Individual income tax performance has been stronger than estimated, but not revised as DoR has remained cautious about final payment estimates for April.
- Corporate income tax estimates were revised down due to the estimated impact of the expiration of cap on Net Operating Loss deductions.
- Sales tax estimates were revised down as the decrease in gasoline prices has translated into lower revenues this fiscal year.
- Federal revenue estimate has been reduced, but final amount will depend on timing of payments released by the Comptroller.

FY2016 General Funds Estimated Revenues

	FY 15 Actual	FY16 Original Estimate	FY16 Revised Estimate
Base Resources			
State Sources: Revenues			
Individual (gross)	17,682	14,644	14,644
Refund Fund Deposit	(1,768)	(1,464)	(1,428)
Education/Human Services Funds set aside	(480)	(881)	(881)
Net Individual Income Taxes	15,433	12,299	12,335
Corporate (gross)	3,129	2,800	2,690
Refund Fund Deposit	(439)	(462)	(409)
Education/Human Services Funds set aside	(4)	(4)	(6)
Net Corporate Income Taxes	2,686	2,334	2,275
Sales Taxes	8,030	8,204	8,140
Public Utility Taxes	1,006	1,008	977
All Other Sources	2,421	2,133	2,168
Total State Sources: Revenues	29,576	25,978	25,895
State Sources: Transfers In			
Lottery	678	696	692
Riverboat Gaming Taxes	292	273	271
Other Transfers	727	692	693
Fund Reallocations	1,284	-	-
Total State Sources	32,557	27,639	27,551
Federal Sources	3,331	4,408	4,161
TOTAL RESOURCES	35,888	32,047	31,712

FY16 ESTIMATED GENERAL FUNDS EXPENDITURES

Expenses

- FY2016 Estimated Budget projects that General Funds spending will total \$36,084 million, an increase of \$726 million(2.1%) from FY2015.
- Estimated pension contributions total \$6.6 billion.
- Estimated transfers to other state funds total \$4.6 billion, including \$2.13 billion to the GO Bond Retirement and Interest Fund.
- These estimates reflect the best estimate of current trends of General Funds spending but would need additional appropriation authority for all the payments to be made.
- The estimated spending reflects the Governor's introduced level of higher education spending.
- Spending estimates reflect the General Funds budget management steps that were put into place this fiscal year.

	FY 15 Actual	FY16 Current Estimate ¹
EXPENDITURES		
Education	8,504	8,144
K-12 Education	6,555	6,572
Higher Education	1,950	1,572
Economic Development	104	48
Public Safety	1,619	1,617
Human Services	5,407	4,871
Healthcare	7,178	7,496
Environment and Culture	67	54
Government Services	2,873	2,857
Group Health Insurance	1,565	1,650
Government Services	1,308	1,207
Pensions	6,046	6,632
K-12 Education Pensions	3,413	3,743
State Universities' Pensions	1,347	1,411
State Employees' Pensions	1,286	1,477
Unspent Appropriations (Salvage)	(1,024)	(251)
TOTAL RESOURCES	30,774	31,469
Statutory Transfers Out	2,489	2,486
Debt Service: Capital & Pension Bonds	2,094	2,129
Total Additional Expenditures	4,583	4,615
TOTAL EXPENDITURES	35,358	36,084

¹ Estimated expenditure is the amount currently estimated by GOMB based on current patterns. Additional appropriations would need to be enacted to spend at this level.

FY 2016 ESTIMATED DEFICIT

- Absent any revenue or spending changes from the current path, the FY16 estimated General Funds deficit will total approximately \$4.4 billion.

State of Illinois Governor's Office of Management and Budget General Funds Financial Walk Down		
\$ millions	2015	Estimated 2016
Base Resources		
State Sources	\$29,576	\$25,895
Transfers In	2,981	1,656
Total State Sources	32,557	27,551
Federal Sources	3,331	4,161
TOTAL RESOURCES	\$35,888	\$31,712
Total Operating Budget		
Statutory Transfers Out	2,489	2,486
Debt Service: Capital & Pension Bonds	2,094	2,129
Total Transfers	\$4,583	\$4,615
TOTAL EXPENDITURES	\$35,358	\$36,084
Interfund borrowing and IOC Adjustments ¹	501	N/A
GENERAL FUND SURPLUS (DEFICIT)	\$1,031	(\$4,372)

¹ In FY15, Illinois interfund borrowed \$454 million that are not considered base revenues. IOC adjustments reflect budgetary adjustments in Traditional Budgetary Financial Report. These are only known when the TBFR is released.

FY 2017 BUDGET PROPOSAL



**“Turnarounds are about
changing direction.
From loss to growth.
From decline to expansion.
From deficit to surplus.
For the economy.
For jobs.
For taxpayers.
For our children.
For our future.”**

**--Governor Bruce Rauner,
FY 2017 Budget Address,
February 17, 2016**



FY 2017 BUDGET PROPOSAL

- On February 17, 2016, Governor Rauner put forth a fiscal year 2017 budget proposal that included not only recommendations for spending in 2017, but also included his vision for transforming state government and revitalizing Illinois' economy.
- The budget proposal focuses on spending in areas that are the state's core priorities and on transforming state government so that the taxpayers' dollars are spent in the most efficient way possible.
- The transformations include proposals to control the cost curve in criminal justice, health and human services, and employee compensation and reduce costs for pensions, state employee health insurance, and the procurement of goods and services.
- Additional changes to the state's technology infrastructure, management of state grants, and revenue collections are also expected to contribute to managing state government costs.

STATE PENSIONS TRANSFORMATION

- The Governor pledged to work with Senate President Cullerton to enact 'consideration' pension reform legislation for current members. No savings from this plan are included in the FY17 budget proposal.
- In addition to these changes, the Governor proposed the following items expected to generate approximately \$750 million in General Funds savings in FY17 including:
 - Requiring school districts to pick up the pension cost of end-of-career wage spikes that exceed average growth rates in wages
 - Require universities and school districts to pick up marginal pension costs for very high-salaried employees
 - Smooth the impact of changes in actuarial assumptions enacted by retirement systems' boards over a 5-year period
 - Uncap payroll projections

STATE EMPLOYEE COMPENSATION TRANSFORMATION EXAMPLES

- To control the cost of state employee health insurance programs, many of which are considered “platinum plus” programs under ACA, the state is proposing to provide a wider range of options for employees to select and higher premiums for the most generous plans.
- Another goal is to switch more of employee’s annual compensation to a merit-based system versus the current system of automatic ‘step’ increases.

STATE AGENCY TRANSFORMATION EXAMPLES

- Revamping Illinois' procurement laws will reduce the costs paid by the state for its purchases of goods, with estimated savings of several hundred million dollars a year.
- Health and Human Services transformations include an alternative program for Department on Aging clients who are not covered by Medicaid, and reducing the number DCFS youth who are in large facilities.
- Criminal justice reform will span many areas, including:
 - Expediting the use of risk and needs assessment tools
 - Enhance delivery of mental health services
 - Closing Kewanee youth center as the Department of Juvenile Justice sees further drops in population.

FY 2017 REVENUE ESTIMATES

- General funds revenues are estimated to total \$32,818 million for FY2017, a \$1,106 million increase, or 3.5%, from FY2016 revised estimates.
- This estimate reflects income tax rates remaining at current statutory levels with moderate growth rate assumptions.
- The estimate in the accompanying table also reflects an estimated \$200 million from divestiture of the Thompson Center (JRTC) and \$275 million from delaying the repayment of the Budget Stabilization Fund (BSF) until the state is on better financial footing. (not included in 'maintenance' base revenues)
- Federal revenues are expected to increase slightly from FY16 estimates.

	FY 15 Actual	FY16 Revised Estimate	FY17 Forecast	\$ increase	% increase
Base Resources					
State Sources: Revenues					
Individual (gross)	17,682	14,644	15,022	378	2.6%
Refund Fund Deposit	(1,768)	(1,428)	(1,502)		
Education/Human Services Funds set aside	(480)	(881)	(901)		
Net Individual Income Taxes	15,433	12,335	12,618	283	2.3%
Corporate (gross)	3,129	2,690	2,780	90	3.3%
Refund Fund Deposit	(439)	(409)	(431)		
Education/Human Services Funds set aside	(4)	(6)	(6)		
Net Corporate Income Taxes	2,686	2,275	2,343	68	3.0%
Sales Taxes	8,030	8,140	8,310	170	2.1%
Public Utility Taxes	1,006	977	958	(19)	-1.9%
All Other Sources	2,421	2,168	2,353	185	8.5%
Total State Sources: Revenues	29,576	25,895	26,582	687	2.7%
State Sources: Transfers In					
Lottery	678	692	705	13	1.9%
Riverboat Gaming Taxes	292	271	273	2	0.7%
Other Transfers	727	693	991	298	43.0%
Fund Reallocations	1,284	-	-		
Total State Sources	32,557	27,551	28,551	1,000	3.6%
Federal Sources	3,331	4,161	4,267	106	2.5%
TOTAL RESOURCES	35,888	31,712	32,818	1,106	3.5%

FY 2017 BUDGET SOLUTIONS

- The estimated FY17 “maintenance” budget – without transformations and spending controls – was expected to lead to a \$6,626 million deficit.
- After accounting for the spending reductions (attributable to primarily transformations), the estimated remaining difference between FY17 expenditures and FY17 revenues totaled \$3,526 million.
- Governor Rauner has proposed two paths to address this:
 - Working Together, or
 - Executive Management

Either plan, if enacted, would meet the state’s constitutional requirement for a balanced budget.

State of Illinois Governor's Office of Management and Budget General Funds Financial Walk Down				
\$ millions	2015	Estimated 2016	Maintenance 2017	2017
Base Resources				
State Sources	\$29,576	\$25,895	\$26,382	\$26,582
Transfers In	2,981	1,656	1,694	1,969
Total State Sources	32,557	27,551	28,076	28,551
Federal Sources	3,331	4,161	4,267	4,267
TOTAL RESOURCES	\$35,888	\$31,712	\$32,343	\$32,818
Total Operating Budget				
Statutory Transfers Out (including interfund borrowing repayment) ¹	2,489	2,486	2,927	2,488
Debt Service: Capital & Pension Bonds	2,094	2,129	2,370	2,370
Total Transfers	\$4,583	\$4,615	\$5,297	\$4,858
TOTAL EXPENDITURES	\$35,358	\$36,084	\$38,969	\$36,344
Interfund borrowing and IOC Adjustments ²	501	N/A	N/A	N/A
Working Together or Executive Management	N/A	N/A	N/A	3,526
GENERAL FUND SURPLUS (DEFICIT)	\$1,031	(\$4,372)	(\$6,626)	\$0

¹ The Governor proposes paying back only \$15 of the \$454 million interfund borrowed in FY15.

² In FY15, Illinois interfund borrowed \$454 million that are not considered base revenues. IOC adjustments reflect budgetary adjustments in Traditional Budgetary Financial Report. These are only known when the TBFR is released.

WORKING TOGETHER

- The Working Together path is the Governor's preferred path to a balanced budget.
- Enact structural reforms and transformations that reduce the cost of delivering government services and lay the groundwork for strong economic growth.
- Then with those objectives accomplished, additional revenues would be supported.
- State General Funds spending in fiscal year 2017 under this approach would total a maximum of \$36,344 million.

EXECUTIVE MANAGEMENT

- Alternatively, the Executive Management approach to achieving a balanced budget is that in the absence of reforms, the Governor proposes the enactment of the Unbalanced Budget Response Act.
- Governor Rauner would be given the tools to establish reserves, reduce provider rates, adjust statutory transfers and continuing appropriations (exempting debt service), and reallocate balances from other state funds into the General Funds.
- State General Funds spending in fiscal year 2017 under this approach could be as low as \$32,818 million, depending on the actions taken.

FY 2017 ESTIMATED BUDGET RESULTS

- Under either Working Together or Executive Management, the FY 2017 General Funds budget will be balanced.
- However, Illinois will still carry a significant budgetary basis deficit and backlog of bills.
- The Governor is willing to work with the legislature on different options to reduce these liabilities, including looking at financing options to address a portion of the backlog.

FY 2017 CAPITAL AND BONDING PLANS



NEW CAPITAL PROPOSED

The FY 2017 Capital Budget proposed funding for:

- \$300 million in statewide deferred maintenance projects
- \$400 million in Information Technology projects to revamp the state's IT infrastructure, including funding for a statewide ERP accounting system
- \$100 million in correctional facility capital projects to meet the requirements under a litigation settlement for treatment of seriously mentally ill inmates
- \$2 billion in pay-as-you-go road construction projects

FY 2016 AND 2017 BONDING PLANS

- The State proposes to issue up to an additional \$1.0 billion in General Obligation bonds during FY 2016 and a projected \$800 million in FY 2017. Timing will depend on spending needs from bond funds.
- In FY 2016, about \$100 million will be issued in Build Illinois bonds and a projected \$225 million will be issued in FY 2017, contingent on spending needs from capital appropriations.