

# Illinois

## At a Glance

	Change in revenue	Size of budget gap	Change in unemployment rate	Foreclosure rate	Needs supermajority?	GPP "Money" grade	Score
<b>Illinois</b>	-10.9%	47.3%	3.5	1.44%	No	C-	<b>22</b>
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
United States	-11.7%	17.7%	4.4	1.37%	17 yes, 33 no	B-	17

SOURCE: Pew Center on the States 2009, reflecting best available and most current data as of July 31, 2009.

During America's Great Recession, Illinois' budget situation has gone from shaky to unsustainable. But the state's fiscal woes began long before this downturn.

"Even if we hadn't had a recession, Illinois would've been pretty deep in the hole," said Jim Edgar (R), a former Illinois governor who ran the state during the downturn in the early 1990s.<sup>255</sup>

Illinois' diverse economy is not immune to the national economic crisis, including the impact of the housing market collapse. It had the seventh-highest foreclosure rate in the first quarter of 2009. Its unemployment rate hit 10.5 percent in September 2009, higher than the national average that month of 9.8 percent.<sup>256</sup>

But what puts Illinois squarely in the company of California is its lack of fiscal discipline to balance its state budget. That was apparent even before the latest recession. In 2008, the Pew Center on the States' Government Performance Project graded states on how well they manage their money. Illinois received a C-. Only California and Rhode Island scored lower.<sup>257</sup>

Illinois' budget gap for fiscal 2010 was one of the three biggest in the country: \$13.2 billion.<sup>258</sup> But Illinois has run deficits every year since the last recession in 2001.<sup>259</sup> Officials have used all sorts of short-term approaches to address the

budget gaps, but two of the most significant and consequential are to put off paying bills and skimp on the state's annual pension payments.

In summer 2009, California issued IOUs when it ran out of money. In comparison, since 2001, the Land of Lincoln repeatedly has let doctors, pharmacists, social workers and other contractors simply wait for compensation as lawmakers put off paying bills. In the past decade, payments to Medicaid providers were particularly affected. The amount of unpaid Medicaid bills pushed into the next fiscal year rose from \$752 million in 1998 to \$1.85 billion in 2003.<sup>260</sup>

When state officials decide the backlog has grown too large, Illinois borrows money to pay its bills, as it has done frequently since 2003.<sup>261</sup> But when the recession struck, Illinois could not borrow enough money to settle its accounts.<sup>262</sup> As a result, the amount of its unpaid bills quadrupled to \$3.9 billion in a one-year span that ended in June 2009.<sup>263</sup> Illinois officials ended the legislative session in July 2009 without a plan to pay them off.<sup>264</sup>

## Unfunded Pension Liabilities Grow

But borrowing was state officials' answer to making its annual payment of \$3.4 billion in 2009

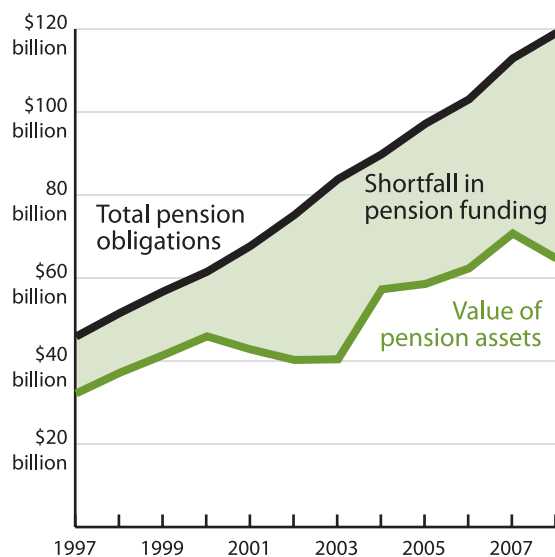
to fund public workers' pension benefits. The loan has to be paid back within five years.

Illinois' unfunded pension liabilities have been a significant and continuing problem, even as far back as 1995 (Exhibit 10).<sup>265</sup> That year, Republicans, who briefly controlled the legislature, devised a 50-year plan to gradually ramp up contributions to bring the public retirement systems closer to solvency. But the plan fell apart after only eight years, when lawmakers turned to a pension bond arrangement proposed by then-Governor Rod Blagojevich (D).

The lynchpin of Blagojevich's first budget in 2003 was a controversial move to float \$10 billion in 30-year bonds and let the state pay two years' worth of pension payments with the proceeds. What

### Exhibit 10. Pensions: Illinois falls behind in saving for future costs

There is a growing gap between what Illinois has promised its public-sector retirees and how much it has set aside to cover its pension obligations. As of 2008, the state's pensions were only 54.3 percent funded, short of the 80 percent that pension experts recommend.



SOURCE: Pew Center on the States 2009, based on data from the State of Illinois, Comprehensive Annual Financial Reports, 1997–2008.

raised the eyebrows of budget experts, though, is how Illinois accounted for the proceeds—it took credit up-front for all of the profits that would accrue over 30 years to justify taking a two-year break from chipping into its pension fund.<sup>266</sup> Recent years showed how risky that approach can be. Largely because of the recession, the profits did not materialize as expected. The state has earned an average of only 3.8 percent a year on investment of its bond proceeds, far less than the 8.5 percent annual average over 30 years on which the state had counted.<sup>267</sup>

In 2004, the year after Blagojevich's pension bond plan passed, legislators rewrote the law to temporarily reduce the annual catch-up payments.<sup>268</sup> Steve Schnorf, a top budget official for two former Republican governors, said the pension arrangements will put tremendous strain on the state next year.<sup>269</sup> Lawmakers not only will have to find \$3.4 billion to make next year's annual pension payment, he said, they also must cover the annual increase required by the 1995 law. On top of that, the state will owe roughly \$800 million to pay back this year's short-term loan.<sup>270</sup>

The state resorted to some of the same budget approaches before Blagojevich assumed office in 2003, but they grew during his tenure. Blagojevich came to office in the wake of the 2001 recession, which hammered state revenues for several years. He held fast to a campaign pledge to oppose income or sales tax hikes. And he championed new programs—including his signature AllKids health insurance initiative—without securing new funding.<sup>271</sup>

The acrimonious relationship between Blagojevich and the Democratic-controlled legislature made matters worse. In 2008, Blagojevich's last year as governor, lawmakers passed a budget that was \$2

billion out of balance and left it to him to make cuts. He did not make much progress before he was impeached and removed from office and then replaced by his lieutenant governor, Pat Quinn (D), in January 2009.

## Budget Solutions Demand Political Will

Illinois now is operating under a budget signed by Quinn in summer 2009 in which legislators left a \$1 billion hole for the new governor to fix. “We have a lot of challenges in Illinois,” Quinn acknowledged the night legislators sent him the spending plan. “That’s why I think we need new revenue to pay the backlog of bills. I have inherited this. I am bound and determined to whittle it down. But right now this budget tonight is the best we can do to get the work done.”<sup>272</sup>

Quinn has not given up on his proposal—rejected in May 2009 by the House<sup>273</sup>—to raise the state’s 3 percent income tax to 4.5 percent. But Quinn put off a vote in the legislature until after the primary election in February 2010.

Meanwhile, experts predict next year’s shortfall will top \$11.7 billion even before taking rising costs into account.<sup>274</sup>

“The difficulty is there is not a tax increase big enough to allow the state to keep spending at the level it has,” said Laurence Msall, president of the Chicago-based Civic Federation, a business-oriented group that studies state and local government. Quinn put forward ideas this year to tamp down spending but got a chilly reception from legislators, Msall said.<sup>275</sup>

Steve Rauschenberger, a former GOP state senator who served as president of the National

Conference of State Legislatures in 2006, said he believes that the state could work its way back into the black, but only by taking on powerful interests in the areas of Medicaid, school funding and corrections policy.<sup>276</sup>

Former Governor Edgar, whom Chicago Mayor Richard M. Daley once dubbed “Governor No” for nixing so many spending ideas, said Illinois governors need to lead the way for the state to make cuts. “My experience has always been that the legislature is not usually the institution you’re going to depend on to hold the line on spending. It’s the nature of the legislature to make their constituents happy,” Edgar said. “The governor has to be the one who makes the stop.”<sup>277</sup>

### SCORECARD INDICATOR: BUDGET GAPS

All but two states confronted budget shortfalls in the current fiscal year, an indication of the breadth of the current recession. State shortfalls totaled \$162 billion in estimated budget gaps for fiscal year 2010—the equivalent of nearly \$530 for every man, woman and child in the country.<sup>278</sup> And unlike the federal government, all states except Vermont are legally bound to balance their budgets, although many run short-term deficits.

Closing budget gaps proved hardest in states that had already struggled to make ends meet even when the economy was good. In the 2010 fiscal year, California was hit hardest, with a shortfall that by some estimates approached half of its operating budget. Illinois, Arizona and Nevada faced gaps greater than a third of their general funds, according to the Center on Budget and Policy Priorities.<sup>279</sup>