The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

STATE OF ILLINOIS FY2020 BUDGET ROADMAP:

State of Illinois Budget Overview, Projections and Recommendations for the Governor and the Illinois General Assembly

February 13, 2019

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The State of Illinois FY2020 Roadmap describes the State of Illinois' fiscal condition and presents the Civic Federation's proposed five-year plan to stabilize the State's finances. The report is published annually before the Governor's budget address for consideration by the Governor and General Assembly during upcoming budget deliberations.[1]

More than ten years after the end of the Great Recession, the State of Illinois' fiscal condition remains precarious. A chronic mismatch between revenues and expenditures persists despite a recent increase in income tax rates. The mountain of unpaid bills continues to grow even after the State borrowed billions of dollars to shrink the backlog.

The biggest challenge continues to be staggering public employee pension costs, which are difficult to reduce due to State constitutional protections as interpreted by the Illinois Supreme Court. At the end of FY2018, the five funds had $133.7 billion in unfunded liabilities; only about 40% of promised pension benefits were covered by pension assets.[2]

Illinois also faces a declining population and an urgent need to repair and improve its transportation infrastructure and state facilities. As a result of the State's problems, Illinois carries the lowest General Obligation credit ratings of any State.

With the beginning of a new gubernatorial administration and many first-time lawmakers in Springfield, the Civic Federation urges Illinois leaders to enact fundamental changes that are long overdue. A revenue system that increasingly burdens a narrow base and does not reflect economic shifts must be updated. A State Constitution that locks in employee benefits based on unsustainable promises must be amended. Fragmented and duplicative units of government need to be consolidated. Illinois's habit of hiding its long-term financial problems with budget gimmicks and illusory reforms must end.

The Civic Federation offers the following recommendations to begin stabilizing the State of Illinois' financial position:

Issue 1: Spending Controls

The Civic Federation recommends that the State of Illinois limit net agency spending growth to 2.4% annually through at least FY2024 and pursue reasonable savings in State employee salary increases and health insurance costs.

Issue 2: Retirement Income Exclusion

The Civic Federation recommends that the State of Illinois broaden its income tax base by eliminating the tax exclusion for all federally taxable retirement income. This will enhance the

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[1] Governor J.B. Pritzker is scheduled to present his budget proposal for FY2020 on February 20, 2019. The State of Illinois' fiscal year begins on July 1 and ends on June 30.

[2] Illinois General Assembly, Commission on Government Forecast and Accountability, "Special Pension Briefing," *Monthly Briefing for the Month Ended: November 2018*, p. 2., http://cgfa.ilga.gov/Upload/1118%20SPECIAL%20PENSION%20BRIEFING.pdf (last accessed on February 12, 2019). This figure is based on the actuarial value of assets, which involves asset smoothing; based on the market value of assets, the unfunded liability was $133.5 billion.

State's fiscal stability by providing access to a faster growing portion of the income tax base, generating FY2020 revenues of over $2.5 billion.

Issue 3: Sales Tax on Services

The Civic Federation recommends that the State of Illinois expand the sales tax base to include the fourteen services taxed by the State of Wisconsin.

Issue 4: Rainy Day Fund

After the backlog of bills is paid off, the State of Illinois should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. Legislation must explicitly indicate when deposits will be made and in what amount and the circumstances under which withdrawals will be allowed.

Issue 5: Constitutional Amendment to Limit the Pension Protection Clause

The Illinois General Assembly should vote to place a constitutional amendment on the ballot no later than the 2020 general election that would limit the pension protection clause and allow reasonable, moderate changes to current employee and retiree benefits necessary to secure the financial sustainability of the State and local governments and the pension systems themselves.

Issue 6: Supplemental Pension Payments

In order to mitigate the underfunding of the State's pension systems due to inadequate statutory payments, the Civic Federation recommends identifying revenues to make annual supplemental payments sufficient to reach 100% funding by FY2045.

Issue 7: Merger of the Chicago and State Teachers' Pension Funds

The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the Teachers' Retirement System and that the State assume responsibility for the unfunded liability of CTPF. The Federation also recommends that the Chicago Public Schools resume paying for the normal cost of Chicago teachers' pensions and that responsibility for the normal cost of pensions for all teachers outside of Chicago be shifted from the State of Illinois to local school districts over three years.

Issue 8: Pension Investment Expense and Asset Allocation

The Civic Federation recommends that the Illinois General Assembly create a commission to review the investment operations of the State's public pension funds, including investment expenses, asset allocation and investment approach, with the goal of improving fund performance and transparency.

Issue 9: Restructuring Illinois' Public University System

The Civic Federation recommends that the Governor create a bipartisan commission to address the need to allocate resources more rationally among the State public universities. The commission should propose a new funding formula and consider the elimination of duplicative programs and the potential need to close or consolidate campuses. The Federation also recommends that the nine universities be governed by a single Board of Trustees to facilitate the establishment of statewide goals and rational allocation of State resources.

Issue 10: Prisons

The Civic Federation recommends that the Governor and General Assembly continue to implement reforms designed to lower Illinois' prison population, not only to achieve widely acknowledged social benefits, but also with the goal of safely and legally generating meaningful cost reductions.

Issue 11: Interest Penalties on Overdue Bills

The Civic Federation recommends that the State reduce the late payment penalty in the Prompt Payment Act to a rate that reflects lower economy-wide rates of return, such as the five-year Treasury rate plus one percentage point. The General Assembly and Governor should also consider a reduction in the timely payment rate in the Insurance Code.

Issue 12: Consolidating and Streamlining Government Units in Illinois

In addition to recommending the merger of CTPF with TRS, the Civic Federation supports the following government consolidation initiatives:

- Consolidate local pension funds;
- Merge the offices of the Illinois Comptroller and Treasurer;
- Authorize any township to be dissolved by referendum;
- Consolidate property tax administration roles in Cook County; and
- Dissolve the Illinois International Port District.

Issue 13: Comprehensive Capital Improvement Planning and Funding

The Civic Federation recommends that before State of Illinois embarks on a new capital plan, it should comprehensively assess and prioritize its needs for both transportation infrastructure and State facilities. In addition, the State should identify reliable, long-term funding sources. The road and transit portion of the plan should be initially funded by an increase in the motor fuel tax, which has not been raised since 1990. The State should further consider vehicle miles traveled and congestion taxes to ensure the long-term sustainability of transportation funding revenues. The State facilities portion of the plan will require other sources of funding, and these must be more reliable than those used for the FY2010 Illinois Jobs Now! capital plan.

Issue 14: Prudent Budget Practices

The Civic Federation believes it is important to warn against certain unwise budgetary practices that have been used in the past and imprudent steps that might be under consideration for the future, such as:

- Relying on illusory savings, accounting gimmicks or one-time revenues;
- Reducing the pension funding target;
- Ending level principal debt repayment;
- Implementing new revenue sources without proper consideration of their reliability and social impact; and
- Ignoring the condition of local governments.

ILLINOIS' FISCAL CHALLENGES

More than ten years after the end of the Great Recession, the State of Illinois' fiscal condition remains precarious. A chronic mismatch between revenues and expenditures persists despite a recent increase in income tax rates. The mountain of unpaid bills continues to grow even after the State borrowed billions of dollars to shrink the backlog.

Although Illinois' financial problems predate the national economic downturn that began in 2007,[3] the State has never fully recovered from the dramatic decline in income and sales tax revenues that followed in its wake. Illinois initially dealt with the revenue shortfall by borrowing and delaying bill payments. Temporary increases in income tax rates, beginning in 2011, were allowed to expire at the end of 2014.

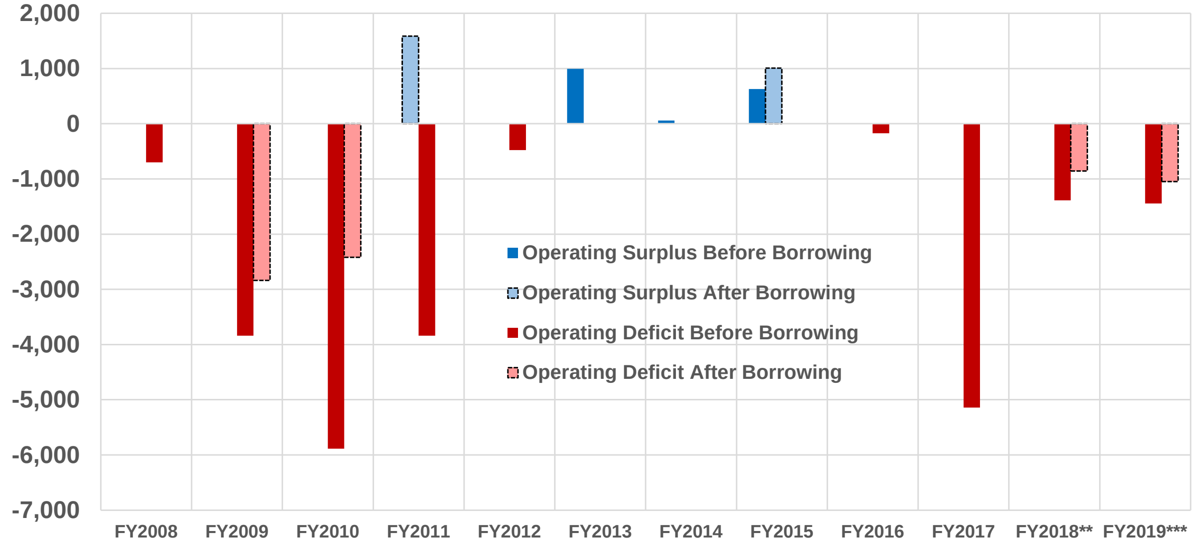
The State subsequently endured two years without a complete budget due to a political dispute that prevented action on the fiscal cliff. The impasse ended in fiscal year 2018 with a permanent increase in income tax rates and the sale of bonds to pay down bills that had accumulated during the budget deadlock.

[3] State of Illinois Comptroller, "The State Fiscal Crisis-How Did We Get Here?" *Fiscal Focus*, September 2011.

Structural Deficit and Bill Backlog

As shown in the following chart, the State ran budgetary deficits in its general operating funds in seven of the last eleven years and is expected to end FY2019 with another budget gap. Excluding borrowing, there were only three years without deficits. Detailed information about revenues and expenditures during this period can be found in Appendix A of this report.

State of Illinois General Funds Budget Balance (in $ millions)*



*For more information, see Appendix A. There was no borrowing for operations in FY2008, FY2012, FY2014, FY2016 or FY2017.
**Preliminary.
***Estimated.
Source:State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018; Illinois State FY2019 Budget, p. 62; State of Illinois, General Obligation Refunding Bonds, Series of September 2018, *Official Statement*, August 22, 2018, pp. 29-30; Illinois State FY2018 Budget, p. 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2015 Budget, pp. 2-22; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, p. 2-10; Illinois State FY2010 Budget, p. 2-12.

The State's accumulated bill backlog provides a more complete picture of its recent fiscal problems. These unpaid bills and other payables cover both budgeted expenditures and certain off-the-books liabilities. Under State law, obligations such as employee group health insurance bills may be incurred in a given year but charged to subsequent years' appropriations.[4] During the budget impasse in FY2016 and FY2017, State agencies also entered into contracts for historically purchased goods and services without any appropriation authority but with vendors expecting future payments.[5] Social service agencies were particularly hard hit by payment delays during the budget deadlock, with some organizations reporting lasting damage to services and staffing.[6]

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[4] 30 ILCS 105/25. These obligations are known as Section 25 liabilities because they are covered under exceptions to Section 25 of the State Finance Act.
[5] State of Illinois, General Obligation Bonds, Series of September 2018, *Official Statement*, August 22, 2018, pp. 24-27.
[6] Dean Olsen, "A year later, social-service agencies, hospitals recovering from impasse," *The State Journal-Register*, July 1, 2018.

The backlog of unpaid bills peaked at $16.7 billion on November 8, 2017, according to the Illinois Comptroller's Office, which measures the backlog at a point in time instead of on a budgetary basis.[7] Many of the bills involved group health insurance, which had received no general operating funds since the end of FY2015. In November 2017, the State paid off a significant portion of the bills using the proceeds of a $6 billion sale of General Obligation bonds that was authorized by the General Assembly as part of the FY2018 budget.[8]

The bond sale immediately reduced the backlog by about $8.7 billion and was mainly used to pay down group health insurance and Medicaid bills.[9] In addition to the authorized par amount of $6 billion, the State received a premium of roughly $500 million on the bond price and $2.2 billion in federal Medicaid reimbursements.[10]

The bond sale was financially prudent because the State's coupon rate of 3.5% on the bonds was far below the steep interest penalties it pays on many overdue bills.[11] Under the State Prompt Payment Act, interest accrues at 1% a month, or 12% annually, on proper bills that are not paid within 90 days.[12] Other claims, including those from healthcare providers, accrue interest at 9% a year after 30 days under the timely payment provisions of the Illinois Insurance Code.[13] According to the Comptroller's Office, the State accrued $1.1 billion in interest penalties during the budget impasse and paid more than $711 million in interest penalties in calendar year 2018.[14]

Another recent measure to manage the backlog allows the State to invest in its own backlogged debt using money from other State funds with sufficient liquidity.[15] The new law gives the Treasurer the authority to invest up to $2 billion with the Comptroller, who will use the funds to pay off pending bills and avoid high interest penalties. Since the fall of 2018, the Treasurer's Office has invested $700 million under this authority at interest rates between 3.59% and 3.78%.[16] The Comptroller's Office estimated six-month savings of $18 million to $29 million due to lower interest penalties.[17]

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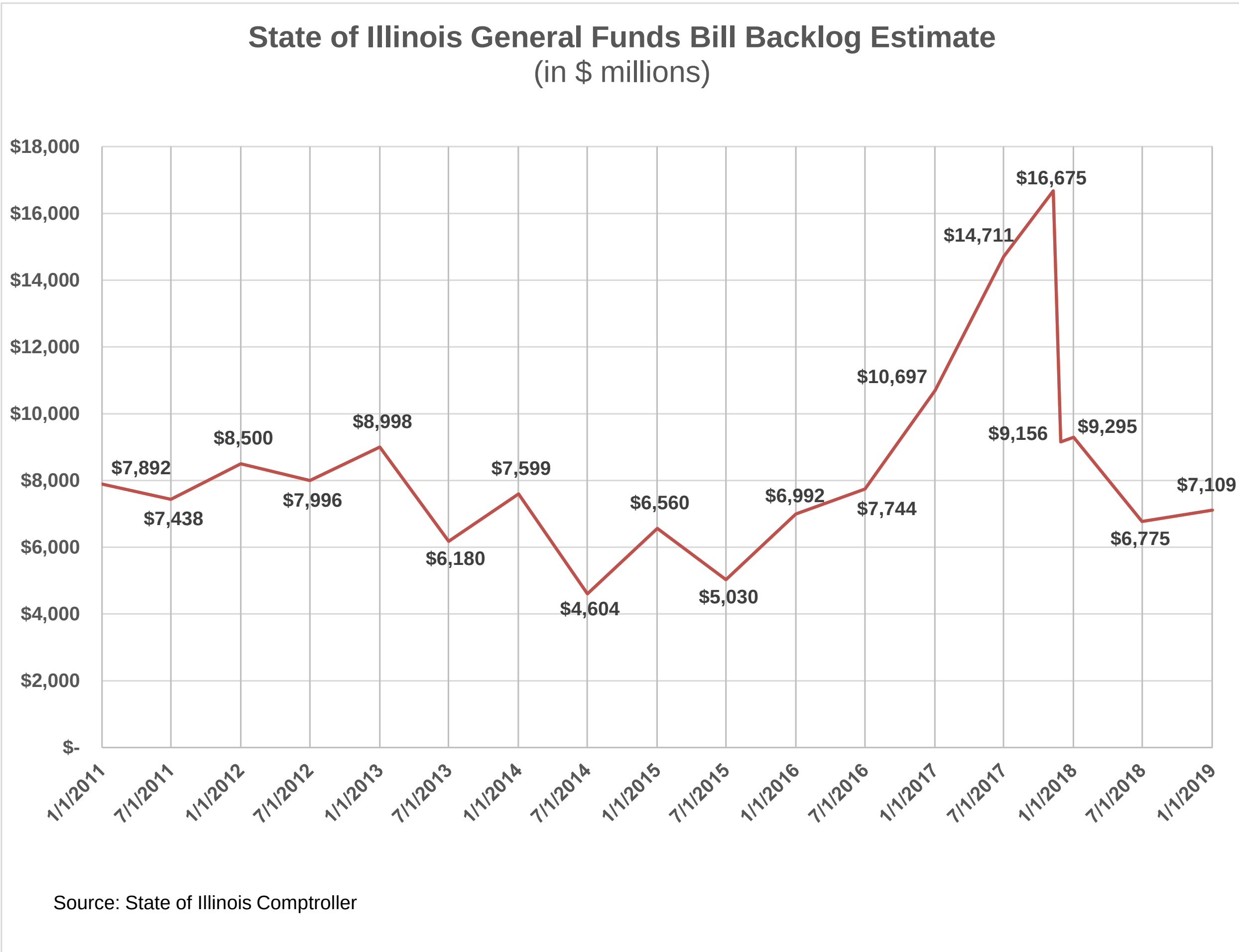
[7] State of Illinois Comptroller, http://illinoiscomptroller.gov/ (last accessed on February 12, 2019).
[8] Public Act 100-0023, enacted on July 6, 2017.
[9] State of Illinois, General Obligation Bonds, Series of September, *Official Statement*, August 22, 2018, p. 31.
[10] State of Illinois, General Obligation Bonds, Series of September, *Official Statement*, August 22, 2018, pp. 28 and 31.
[11] Certain payables, such as transfers to local governments and other State funds, are not eligible for penalty interest.
[12] 30 ILCS 540. Proper bills are defined as those that include the information needed to process the payment.
[13] 215 ILCS 5/368(a).
[14] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 4, https://illinoiscomptroller.gov/comptroller/assets/file/DTA/SpecialReportOnIllinoisFinancesAndFuture.pdf (last accessed on February 12, 2019).
[15] Public Act 100-1107, enacted on August 27, 2018.
[16] Illinois State Treasurer, Investing to Reduce Illinois' Backlog, https://stories.opengov.com/illinoistreasurer/published/95gvCe0XZ (last accessed on February 12, 2019).
[17] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 6.

The following chart, based on data from the Comptroller's Office, shows the State's General Funds bill backlog from January 2011 through the beginning of 2019. The Governor's Office of Management and Budget recently projected a year-end FY2019 backlog of $7.8 billion.[18]



The burdensome bill backlog is essentially the opposite of the budgetary reserves recommended by public finance experts.[19] Instead of a savings account, or rainy day fund, to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates, Illinois' backlog represents future revenue demands. The State has never had a functioning rainy day fund and the only account that could be used for that purpose was depleted during the budget impasse and subsequently folded into General Funds.[20]

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[18] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202018/General-Funds-Financial-Walk-FY19.pdf (last accessed on February 12, 2019). For more information on the various ways of measuring the State's bill backlog, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Measuring the State of Illinois' Bill Backlog," February 8, 2019, https://www.civicfed.org/iifs/blog/measuring-state-illinois-bill-backlog (last accessed on February 12, 2019).

[19] Government Finance Officers Association, *Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund*, September 2015.

[20] For more information on rainy day funds, see p. 28 of this report.

Pension Obligations

Illinois' inability to balance its budget and pay its bills stems in large part from the State's overwhelming pension obligations. The unfunded liability of the State's five retirement systems totaled $133.7 billion at the end of FY2018 and the combined funded ratio stood at 40.1%.[21] To make up for many years of underfunding, statutorily required General Funds pension contributions rose from $1.6 billion in FY2008 to $3.7 billion in FY2011 and are expected to be $7.1 billion in FY2019. Even so, contributions are not expected to be sufficient to keep the unfunded liability from growing until FY2029.[22]

Additionally, due to the liquidity crisis following the recession, Illinois covered its pension contributions in FY2010 and FY2011 by selling bonds. Debt service transfers for pension bonds, including bonds that were issued in 2003,[23] rose from $467 million in FY2008 to $1.7 billion in FY2011 and are estimated at $1.2 billion in FY2019. Total pension-related costs increased four-fold from $2.1 billion in FY2008 to about $8.3 billion in FY2019.

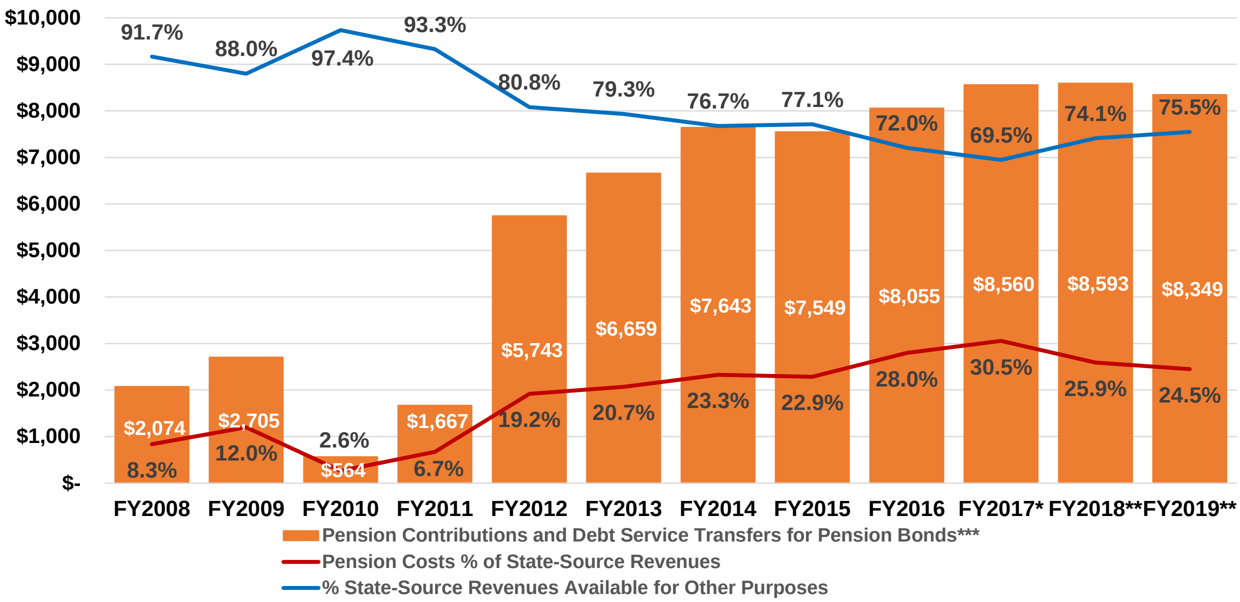
[21] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Special Pension Briefing," *Monthly Briefing for the Month Ended: November 2018*, p. 2. These figures are based on the actuarial value of assets, which is based on asset smoothing. Based on the market value of assets, the unfunded liability was $133.5 billion and the combined funded ratio was 40.2%.

[22] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Special Pension Briefing," *Monthly Briefing for the Month Ended: November 2018*, p. 13.

[23] Illinois issued $10 billion of Pension Obligation Bonds in June 2003. From the proceeds, $7.3 billion was used to increase pension fund assets and about $2.2 billion went for required pension contributions in FY2003 and FY2004, replacing General Funds contributions.

The next chart shows the portion of State-source General Funds revenue devoted to pension costs compared with other purposes.[24] The share of revenue grew from 8.3% in FY2008 to an estimated 24.5% in FY2019. The peak was 30.5% in FY2017 following the income tax rate reductions in 2015; the share declined in the next two years due to the income tax rate increases in FY2018. Pension contributions for FY2010 and FY2011 are not shown in the chart because they were paid from bond proceeds instead of General Funds.

State-Source General Funds Revenue Available for Pension Costs Compared with Other Purposes: FY2008-FY2019 (in $ millions)



* Preliminary.
**Estimated.
*** Pension contributions in FY2010 and FY2011 were made through issuance of bonds and are not included in this chart.
Source:State of Illinois, Governor's Office of Management and Budget, General Funds Financial Walk Down, November 15, 2018; Illinois State FY2019 Budget, p. 62; State of Illinois, General Obligation Refunding Bonds, Series of September 2018, *Official Statement*, August 22, 2018, pp. 29-30; Illinois State FY2018 Budget, p. 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2015 Budget, pp. 2-22; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, p. 2-10; Illinois State FY2010 Budget, p. 2-12; Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems, Financial Condition as of June 30, 2017*, March 2018, pp. 123-127.

Credit Ratings

Persistent budget deficits, the large bill backlog, growing pension obligations and fiscal mismanagement such as the impasse have eroded Illinois' credit rating. During the two-year budget standoff, Illinois' General Obligation ratings were downgraded twice by Fitch and three times each by S&P and Moody's.[25] The downgrades leave Illinois with the lowest ratings of any state: one step away from a junk rating by both S&P and Moody's and two steps away by Fitch.

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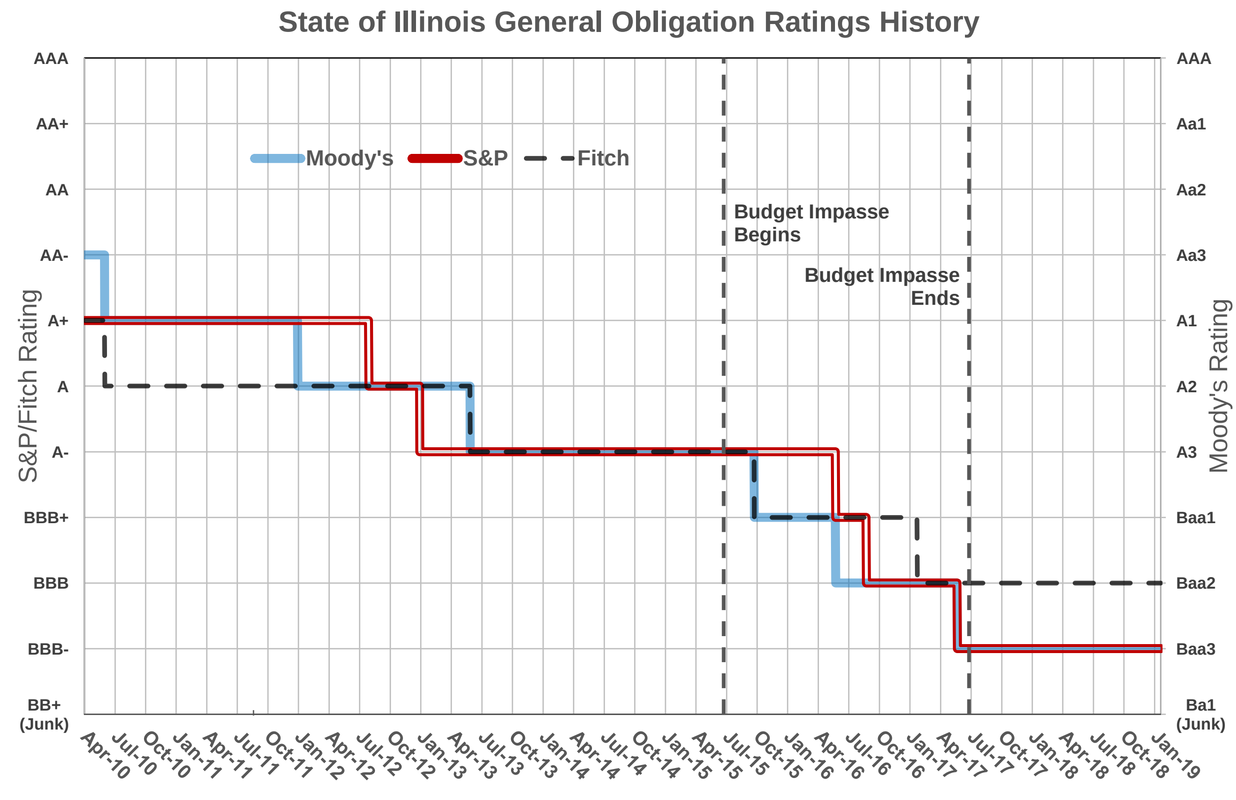
[24] General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.

[25] Illinois General Assembly, Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2018*, Updated September 5, 2017, p. 208, http://cgfa.ilga.gov/Upload/FY2018BudgetSummary.pdf, (last accessed on February 12, 2019).

The following chart shows the history of the State's General Obligation credit rating since 2010.



Source: Illinois General Assembly, Commission on Government Forecasting and Accountablity, *State of Illinois Budget Summary Fiscal Year 2019*, August 1, 2018, p. 160; Illinois State Comptroller's Office, Bond Ratings, www.illinoiscomptroller.gov/financial-data/fiscal-focus-blog/bond-ratings (Last Accessed February 1, 2019).

As a result of the downgrades, the State was forced to renegotiate the terms of its interest rate swap contracts twice to avoid automatic termination payments for failing to meet credit thresholds.[26] Finally, in September 2018 the State issued bonds to finance $74.6 million in payments to terminate all of its swaps.[27]

The State's General Obligation ratings have not changed since the end of the standoff in July 2017, and both S&P and Moody's have a stable outlook for the credit.[28] The State's highest rating, from Fitch, retains a negative outlook.

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[26] Illinois Institute for Fiscal Sustainability at the Civic Federation blog, "Illinois Announces Reduced Swaps Risk and Completes Bond Sale," June 17, 2016, https://www.civicfed.org/iifs/blog/illinois-announces-reduced-swaps-risk-and-completes-bond-sale (last accessed on February 12, 2018); Illinois Institute for Fiscal Sustainability at the Civic Federation blog, "Illinois Negotiates Lower Swap Termination Thresholds," June 13, 2017, https://www.civicfed.org/iifs/blog/illinois-negotiates-lower-swap-termination-thresholds (last accessed on February 12, 2018).

[27] State of Illinois, General Obligation Refunding Bonds, Series of September 2018, *Official Statement*, August 22, 2018, p. 7.

[28] State of Illinois Comptroller, Bond Ratings, www.illinoiscomptroller.gov/financial-data/fiscal-focus-blog/bond-ratings (last accessed on February 12, 2019).

Illinois' sales tax-backed Build Illinois Bonds program received two five-notch downgrades in 2018: From AA+ to A- by Fitch in May[29] and from AA- to BBB by S&P in October.[30] Both "superdowngrades" were caused by changes in the ratings criteria of the two companies that more directly link revenue bonds to an issuer's underlying rating. Accordingly, the companies cited Illinois' low General Obligation credit as a major factor in the downgrades.

Capital Needs

Illinois has not had a major capital program since 2009. The *Illinois Jobs Now!* FY2010 capital budget included $18.0 billion in new projects as well as $11.0 billion of reappropriations from previous years.[31] Since then, new appropriations have averaged approximately $3.8 billion annually.

The 2018 state report card issued by the American Society of Civil Engineers gives Illinois a C- for the overall quality of its infrastructure.[32] The road and transit categories each received a D. The Federal Highway Administration reports 2,303 structurally deficient bridges in Illinois, 8.6% of the State's total.[33] A recent report by the Regional Transportation Authority accuses the State of chronically underfunding transit and states that capital needs are outpacing uncertain revenues.[34]

Addressing Illinois' infrastructure needs will not be cheap. The Illinois Department of Transportation (IDOT) estimates that additional revenues of $1.7 billion annually are needed to keep up with maintenance of existing highway and transit infrastructure.[35] Needed improvements in these systems would cost an additional $2.25 billion each year. These figures do not include other important infrastructure, such as airports, freight rail or waterways. The Metropolitan Planning Council estimates a similar figure: $4.3 billion annually to maintain and moderately expand the State's transportation infrastructure.[36]

In November 2016 voters approved a lockbox amendment to the Illinois Constitution that restricts some transportation-derived revenue sources to transportation-related expenditures.[37] While proponents argued that the amendment would prevent fund sweeps that divert

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[29] Rich Saskal, "Criteria change sends Build Illinois sales tax bonds down five notches," *The Bond Buyer*, May 25, 2018.
[30] Brian Chappatta, "Credit Rating Superdowngrades Only Confuse Investors," *Bloomberg*, November 1, 2018.
[31] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2019*, April 2018, p. 8, http://cgfa.ilga.gov/Upload/FY%202019%20Capital%20Plan%20Analysis%20FINAL.pdf (last accessed on February 12, 2019.)
[32] American Society of Civil Engineers, Illinois Section, *Report Card for Illinois Infrastructure*, 2018, https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/FINAL-REPORT-CARD-FOR-2018-IL-Infrastucture.pdf (last accessed on February 12, 2019).
[33] Federal Highway Administration, *Deficient Bridges by Highway System 2017*, December 31, 2017, https://www.fhwa.dot.gov/bridge/nbi/no10/defbr17.cfm (last accessed on February 12, 2019).
[34] Regional Transportation Authority, "Invest in Transit: The 2018-2023 Regional Transit Strategic Plan for Chicago and Northeastern Illinois," p. 14.
[35] Communication between the Civic Federation and the Illinois Department of Transportation, December 1, 2017.
[36] Metropolitan Planning Council, "Transportation," http://www.metroplanning.org/transportation, (last accessed on February 12, 2019).
[37] Rummana Hussain, "Illinois voters approve 'Safe Roads Amendment'," *Chicago Sun-Times*¸ November 8, 2016.

transportation funds for other uses, the amendment did not result in expanded revenues for those funds.

For decades the standard funding source for capital investments in transportation has been the motor fuel tax (MFT), but the revenue produced by this tax has eroded over time. Illinois has not raised the MFT from the flat rate of $0.19 per gallon in over 29 years.[38] Since that time, construction costs have doubled while gas tax revenue has grown by only 20%.[39]

In addition to transportation infrastructure, the FY2019 Capital Budget called attention to other infrastructure needs, such as modernization of the State's information technology systems and a backlog in deferred maintenance at State facilities estimated at $7.4 billion. [40] However, GOMB officials have indicated that the State has never completed a full assessment of facilities and the real number could be much higher.[41] Additionally, the State Board of Higher Education reports that the backlog of deferred maintenance at public universities has grown from $2.7 billion in FY2005 to $6.2 billion in FY2019.[42]

Population Loss

It is difficult to determine the precise connection between Illinois' fiscal challenges and a troubling demographic trend: the recent decline in the State's population. New numbers from the United States Census Bureau show that Illinois' population dropped for the fifth year in a row in 2018, for a total loss of 157,189 people beginning in 2014. [43] While decrease represents only 1.2% of the Illinois population, which was estimated at 12.7 million in 2018, the decline cannot be explained by regional trends.

Although the Midwest's share of the U.S. population has declined each decade since at least 1900, Illinois is unique among nearby states in experiencing any annual population decreases since 2013. Among the neighboring states of Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio and Wisconsin, population increases ranged from 0.8% in Michigan to 3.6% in Minnesota and averaged 1.5%. The total U.S. population grew by 3.5%, or 11.1 million, during the period.

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[38] 35 ILCS 505/2(a).

[39] Chicago Metropolitan Agency for Planning, "Adequate Transportation Funding: Reforming the Motor Fuel Tax," p. 3, http://www.cmap.illinois.gov/documents/10180/17016/FY15-0061+ADEQUATE+TRANSPORTATION+FUNDING.pdf/60dc6491-b463-436c-b877-ac82e54f0ce3, (last accessed on February 12, 2019).

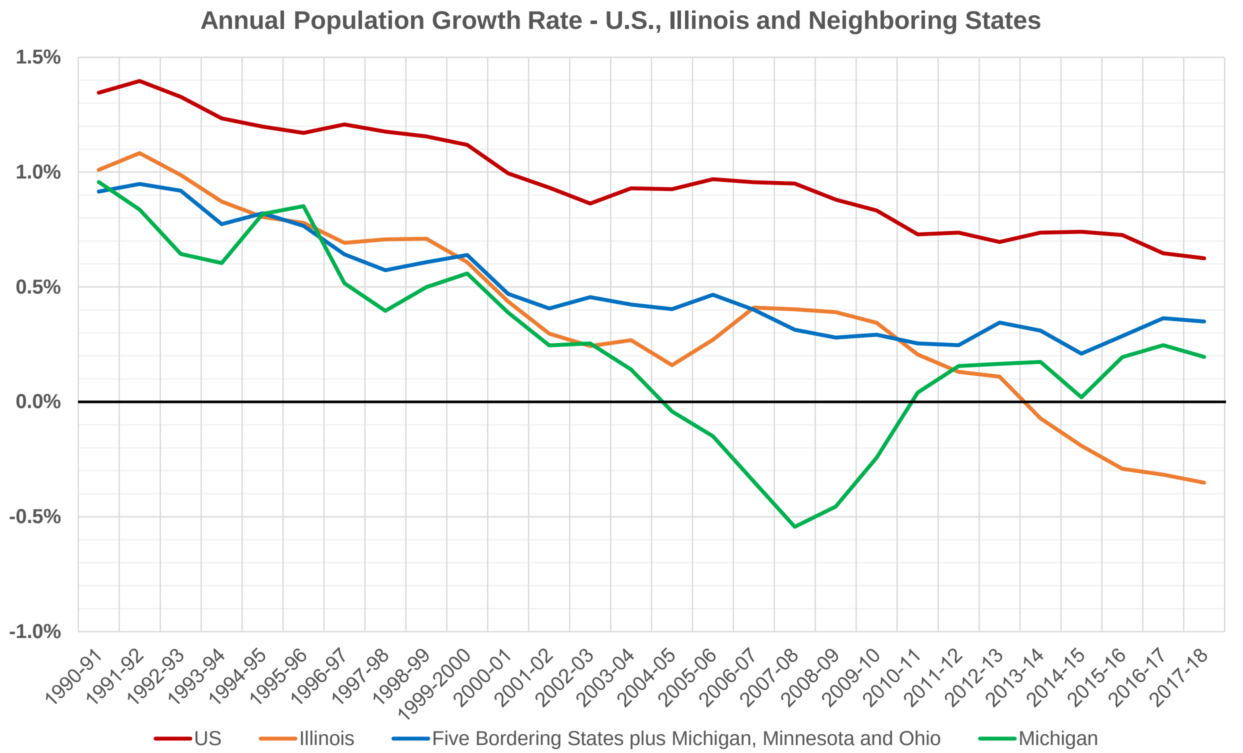
[40] Illinois State FY2019 Capital Budget, pp. 21-26.

[41] Communication between the Civic Federation and the Governor's Office of Management and Budget, October 4, 2018.

[42] State of Illinois Board of Higher Education, Fiscal Year 2020 Higher Education Budget Recommendations, December 2018, p. 61.

[43] U.S. Census Bureau, *Annual Estimate of the Resident Population for the United States, Regions, States and Puerto Rico, April 1, 2010 to July 1, 2018*, December 2018, https://www2.census.gov/programs-surveys/popest/tables/2010-2018/state/totals/nst-est2018-01.xlsx (last accessed on February 12, 2019).

The next chart shows annual population growth rates for Illinois, neighboring states and the U.S. as a whole from 1990 to 2018. The data used to create the chart can be found in Appendix B.



Source: US Census Data, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018; Intercensal Tables 1990-2010.

In the chart, Illinois appears to veer from its neighbors in 2011. However, that is in large part due to the impact of population growth in Michigan, which had seen decreases in the preceding six years. Net domestic out-migration—the difference between the number of people leaving Illinois for other states and the number moving into Illinois from elsewhere in the U.S.—increased in 2011 but remained within the range of the previous two decades. The significant population shift in Illinois occurred in 2014 with a dramatic rise in net domestic out-migration from 5.1 people per 1,000 residents in 2011 to 7.3 in 2014. The rate was 8.9 in 2018, according to census data.

It is important to note that net domestic out-migration is a longstanding trend in Illinois, dating back to at least 1991.[44] Historically, the State's net domestic out-migration has been offset by natural growth (births exceeding deaths) and net international in-migration. Illinois began to lose population in 2014 not only because of the increase in net domestic out-migration but also due to a slowdown in natural growth that began years earlier. Net international in-migration has remained relatively stable since 2008.

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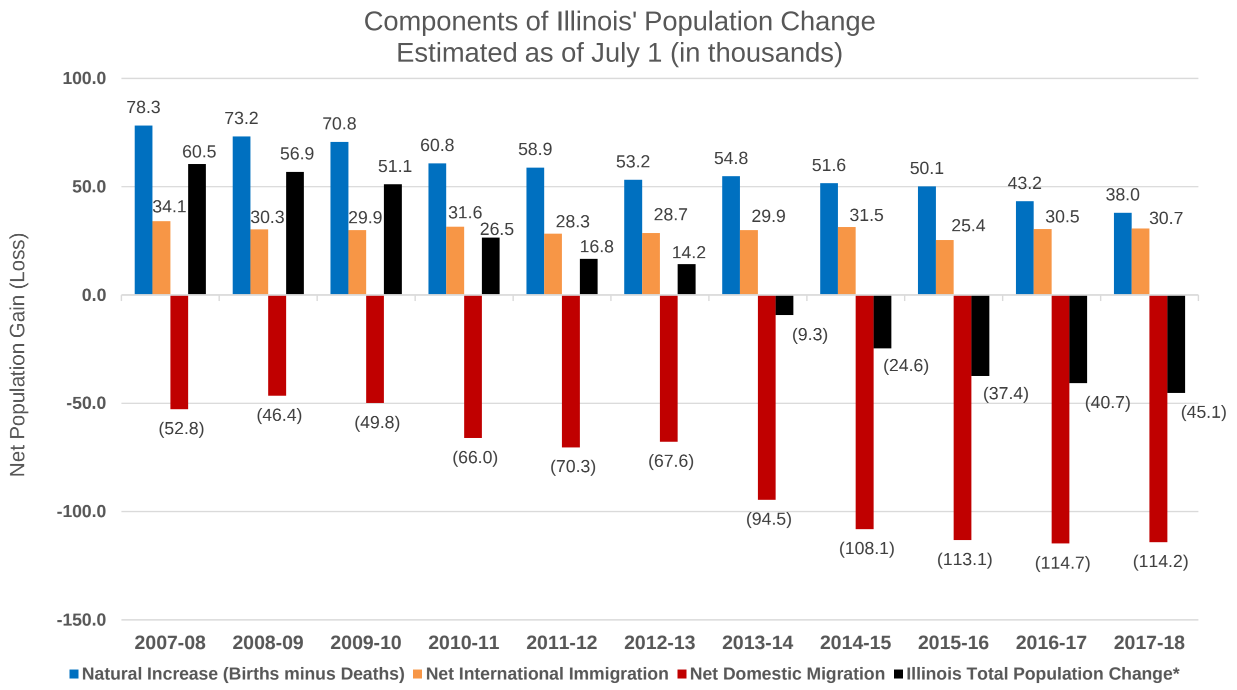
[44] Natalie Davila, Mike Klemens and Robert Ross, *Who is Leaving Illinois and Why? A review of data on migration patterns in Illinois*, March 1, 2016, pp. 4-5. Census Bureau estimates for net domestic migration are only available since 1990.

The following table shows the components of Illinois' population changes from 2008 to 2018. In 2018 a slight decline in net domestic out-migration was offset by the decrease in natural growth. More information on the components of Illinois' population change can be found in Appendix C.



* Total population change includes a residual amount that cannot to attributed to any specific component.
Source: US Census, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018; Intercensal Tables, 2000-2010.

BUDGET PROJECTIONS

Illinois continues to face immense fiscal challenges. The annual five-year projection from the Governor's Office of Management and Budget (GOMB) showed that without significant policy changes, structural deficits would remain a feature of the State's finances for the foreseeable future and the backlog of unpaid bills will keep growing.[45] The table below summarizes GOMB's General Funds budget projection through FY2024. The projections were issued on November 15, 2018 by Governor Bruce Rauner's administration. His successor, Governor J.B. Pritzker, took office on January 14, 2019.

State of Illinois General Funds Budget: FY2019-FY2024 Governor's Current-Year Estimate and Five-Year Projection (in $ millions)						
	FY2019 Estimated	**FY2020 Projected**	**FY2021 Projected**	**FY2022 Projected**	**FY2023 Projected**	**FY2024 Projected**
Revenues						
Net Individual Income Taxes	*$ 18,336*	*$ 18,497*	*$ 18,978*	*$ 19,631*	*$ 20,360*	*$ 21,084*
Net Corporate Income Taxes	*$ 2,207*	*$ 2,290*	*$ 2,313*	*$ 2,319*	*$ 2,417*	*$ 2,457*
Net Sales Taxes	*$ 8,181*	*$ 8,283*	*$ 8,466*	*$ 8,715*	*$ 8,927*	*$ 9,102*
All Other State Sources	*$ 5,360*	*$ 5,199*	*$ 5,053*	*$ 5,067*	*$ 5,083*	*$ 5,102*
State Source Revenues	$ 34,085	$ 34,268	$ 34,811	$ 35,732	$ 36,788	$ 37,746
Federal Revenues	$ 3,500	$ 3,605	$ 3,641	$ 3,677	$ 3,714	$ 3,751
Total Revenues	**$ 37,585**	**$ 37,873**	**$ 38,452**	**$ 39,409**	**$ 40,502**	**$ 41,497**
Expenditures						
1. Education	*$ 10,173*	*$ 10,591*	*$ 10,959*	*$ 11,327*	*$ 11,696*	*$ 12,065*
K-12 Education	*$ 8,385*	*$ 8,785*	*$ 9,135*	*$ 9,485*	*$ 9,835*	*$ 10,185*
Higher Education	*$ 1,789*	*$ 1,806*	*$ 1,824*	*$ 1,843*	*$ 1,861*	*$ 1,880*
2. Economic Development	*$ 62*	*$ 63*	*$ 64*	*$ 65*	*$ 66*	*$ 67*
3. Public Safety	*$ 1,735*	*$ 1,770*	*$ 1,805*	*$ 1,841*	*$ 1,878*	*$ 1,916*
4. Human Services	*$ 5,906*	*$ 5,955*	*$ 6,055*	*$ 6,157*	*$ 6,260*	*$ 6,365*
5. Healthcare	*$ 7,930*	*$ 8,327*	*$ 8,493*	*$ 8,663*	*$ 8,836*	*$ 9,013*
6. Environment and Culture	*$ 59*	*$ 59*	*$ 60*	*$ 60*	*$ 61*	*$ 62*
7. Government Services (excl. Group Health)	*$ 1,364*	*$ 1,403*	*$ 1,425*	*$ 1,447*	*$ 1,469*	*$ 1,491*
Unspent Appropriations	*$ (954)*	*$ (985)*	*$ (1,010)*	*$ (1,036)*	*$ (1,061)*	*$ (1,087)*
Agency Expenditures	$ 26,276	$ 27,183	$ 27,851	$ 28,526	$ 29,206	$ 29,892
AFSCME Step Increases	$ 500	$ 207	$ 214	$ 222	$ 230	$ 238
Net Agency Expenditures	**$ 26,776**	**$ 27,391**	**$ 28,064**	**$ 28,748**	**$ 29,436**	**$ 30,130**
Group Insurance Payments	$ 2,026	$ 2,057	$ 2,129	$ 2,204	$ 2,281	$ 2,360
K-12 Education Pensions	*$ 4,375*	*$ 4,813*	*$ 5,076*	*$ 5,312*	*$ 5,422*	*$ 5,548*
State Universities' Pensions	*$ 1,440*	*$ 1,716*	*$ 1,811*	*$ 1,891*	*$ 1,952*	*$ 2,023*
State Employees' Pensions	*$ 1,288*	*$ 1,659*	*$ 1,741*	*$ 1,820*	*$ 1,842*	*$ 1,872*
Net Pension Contributions	$ 7,103	$ 8,188	$ 8,629	$ 9,022	$ 9,217	$ 9,443
Statutory Transfers	$ 428	$ 395	$ 402	$ 409	$ 416	$ 423
Pension and Capital Bonds Debt Service	*$ 1,882*	*$ 1,351*	*$ 1,431*	*$ 1,503*	*$ 1,574*	*$ 1,638*
Backlog Bonds Debt Service	*$ 782*	*$ 757*	*$ 732*	*$ 707*	*$ 682*	*$ 657*
Pension Buyout Bonds	*$ 33*	*$ 99*	*$ 97*	*$ 94*	*$ 92*	*$ 90*
Total Debt Service	$ 2,697	$ 2,207	$ 2,260	$ 2,304	$ 2,348	$ 2,385
Total Expenditures	**$ 39,030**	**$ 40,238**	**$ 41,484**	**$ 42,687**	**$ 43,697**	**$ 44,741**
Operating Surplus (Deficit)	**$ (1,444)**	**$ (2,365)**	**$ (3,033)**	**$ (3,278)**	**$ (3,195)**	**$ (3,244)**
Interfund Borrowing (Repayment)	$ 400	$ (400)	$ (400)			
Surplus (Deficit) After Interfund Borrowing	**$ (1,044)**	**$ (2,765)**	**$ (3,433)**	**$ (3,278)**	**$ (3,195)**	**$ (3,244)**
Bill Backlog	**$ (7,821)**	**$ (10,586)**	**$ (14,019)**	**$ (17,297)**	**$ (20,492)**	**$ (23,736)**
Reserves % of Revenues	**-20.8%**	**-28.0%**	**-36.5%**	**-43.9%**	**-50.6%**	**-57.2%**

Source: State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down* ,November 15, 2018; Civic Federation Calculations.

[45] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.

Revenues

After one of the longest economic expansions in U.S. history, the revenue forecast is based on a recession from the fourth quarter of 2019 to the second quarter of 2020.[46] The prior five-year projection factored the possibility of a recession into a blended revenue forecast that combined baseline and pessimistic scenarios.[47] A potential economic slowdown was included in the overall growth rates applied to the forecast, rather than a prediction that a recession would occur in any particular year.

In the latest projection, individual income tax revenues (net of amounts diverted to pay for tax refunds and distributions to local governments) increased by less than 1.0% in FY2020 and by 2.6% in FY2021, following forecast growth of 3.4% in FY2019. After a projected increase of 9.4% in FY2019, net corporate income taxes grew by 3.8% in FY2020 and at even slower rates in the next two years. Net sales taxes (after distributions to public transit funds) grew by 1.3% in FY2020 and 2.2% in FY2021. Sales tax revenues were expected to increase by 4.8% in FY2019, fueled by expanded legal authority to require out-of-state retailers to collect taxes on sales to Illinois customers.[48]

Total revenues (excluding interfund borrowing) rose by only 2.1% annually over the five-year period, from $37.6 billion in FY2019 to $41.5 billion in FY2024. For FY2019, the revenue estimate of $37.6 billion before interfund borrowing represented a decrease of $135 million from budgeted revenues. A projected increase in projected receipts from income taxes and other sources was partly offset by lower federal revenues.

Additionally, the potential sale of the James R. Thompson Center was eliminated from the FY2019 revenue estimate and not included in any subsequent year of the forecast. The sale of the State's main office building in Chicago had previously been included in the FY2018 budget and had been budgeted to bring in $300 million in FY2019, offset by $30 million in expenses. Legislation facilitating the sale was passed by the General Assembly in 2017 but was held on a motion to reconsider and was never presented to Governor Rauner for his signature.[49] The motion was lifted on January 9, 2019, the last day of the 100th General Assembly, and was sent to the new Governor on February 9, 2019. Even if the legislation is enacted, the timing and price of any sale remain uncertain.

GOMB's revenue estimate for FY2019 also assumed a reduction in interfund borrowing to $400 million from the $800 million authorized by the General Assembly. However, a new report from the Comptroller's Office said balances in other State funds would only support $250 million of

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[46] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, pp. 1-5, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202018/Economic-and-Fiscal-Policy-Report-FY19.pdf (last accessed on February 12, 2019).
[47] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, October 12, 2017, p. 10, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202017/Economic_and_%20Fiscal_%20Policy_%20Report_10.12.17.pdf (last accessed on February 12, 2019).
[48] *South Dakota v. Wayfair, Inc.*, 17-494 (2018). Illinois also included provisions to implement the decision in Public Act 100-0587, enacted on June 4, 2018.
[49] 100th Illinois General Assembly, Senate Bill 886, filed on February 7, 2017.

borrowing before the authority expires in March 2019.[50] No additional interfund borrowing was included in future years, but the projection accounted for the repayment of prior interfund borrowing in FY2020 and FY2021.

Expenditures

Expenditures were forecast to grow by 14.6% from $39.0 billion in FY2019 to $44.7 billion in FY2024. A major driver was State pension contributions, which grew an average of 6.0% per year during the period from $7.1 billion in FY2019 to a projected $9.4 billion in FY2024.

Actual annual pension contributions from FY2019 through FY2021 will depend partly on participation in pension buyout plans by members of the Illinois' three largest retirement systems. The voluntary plans are designed to reduce State costs by allowing members to give up future benefits in exchange for immediate payments.[51] However, the plans have only begun to be offered recently at two of the systems and are not expected to start until late FY2019 at the third. The FY2019 General Funds budget currently assumes about $374 million in savings due to the plans, but statutorily required State contributions have to be recalculated to reflect any savings.[52]

To finance payments to members who select buyout options, the forecast assumed the State would issue $1 billion of bonds at 6% interest in March 2019.[53] The bond sale is expected to result in additional debt service of $90 million to $99 million annually during the five-year period. Total debt service transfers was expected to decline by 11.6% from $2.7 billion in FY2019 to $2.4 billion in FY2024 due to the final expiration in FY2020 of pension bonds issued in 2011 and decreasing debt service requirements for bonds issued in 2017 to pay down the bill backlog.

Net agency spending was expected to grow at an average annual rate of 2.4% over the five years. The category with the highest projected growth is elementary and secondary education at 4.0% per year. Spending on K-12 education was projected to receive annual increases of $350 million to meet the target increase set by the school funding formula legislation enacted in August 2017.[54] Medicaid spending jumped by 5.0% in FY2020, partly due to decreased federal

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[50] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 5.
[51] For more information, see Illinois Institute for Fiscal Sustainability at the Civic Federation blogs: "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018, https://www.civicfed.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget; "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, https://www.civicfed.org/iifs/blog/illinois-fy2019-budget-still-faces-major-hurdles; State of Illinois Pension Contributions to Rise in FY2020, but by how Much," November 9, 2018, https://www.civicfed.org/iifs/blog/state-illinois-pension-contributions-rise-fy2020-how-much; "Illinois Budget Deficit Projected to Exceed $1 Billion in FY2019," November 20, 2018, https://www.civicfed.org/iifs/blog/illinois-budget-deficit-projected-exceed-1-billion-FY2019 (last accessed on February 12, 2019).
[52] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, pp. 6-7. The original savings estimate for FY2019 was $445 million, but the projected contribution reduction of about $70 million for the State Universities Retirement System was shifted to FY2020 because the buyouts are not expected to be available in time to realize savings in FY2019.
[53] Communication between the Civic Federation and the Governor's Office of Management and Budget, November 16, 2018.
[54] 105 ILCS 5/18-8.15 Section (g)(9).

reimbursements under the Affordable Care Act's eligibility expansion and reduced cigarette tax receipts, but was expected to increase at a much slower pace in future years.[55] Higher education—which includes the State's nine public universities, community colleges and the Monetary Award Program tuition grants for low income college students—had one of the lowest projected growth rates at only 1.0% per year.

Estimated net agency spending of $39.0 billion in FY2019 was $526 million above the budgeted level of $38.5 billion. The main reason was that the FY2019 budget did not account for any payment of step increases to thousands of members of the American Federation of State, County and Municipal Employees (AFSCME) under their last contract, which expired at the end of FY2015. After an unsuccessful court battle, the Rauner administration estimated that current and prior-year step payments could range from $170 million to $500 million in FY2019.[56] The five-year projection included the maximum figure of $500 million in FY2019 and payments of more than $200 million annually through FY2024.

Budget Balance and Backlog

GOMB's forecast predicted continued financial difficulty for Illinois. After accounting for both interfund borrowing and step payments, the forecasted operating deficit was as high as $1.0 billion in FY2019, depending on the outcome of the AFSCME case discussed above.[57] Without policy changes, the projected deficit rose to $2.8 billion in FY2020 and stands at $3.2 billion in FY2024.

As a result, the backlog of unpaid bills was expected to increase to $7.8 billion at the end of FY2019 and jump to $10.6 billion by the end of FY2020. By FY2024 the projected backlog was $23.7 billion. GOMB's conclusion: "Options must be considered for implementing structural reforms, imposing spending reductions and enhancing revenues to balance the State's budget and resolve the budget shortfalls projected in this report."[58]

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[55] Communication between the Civic Federation and the Governor's Office of Management and Budget, November 16, 2018.

[56] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, p. 7. Illinois' Fifth District Appellate Court ruled in November 2017 that the State violated the law when it ended the automatic annual increases for early-career workers, and the Illinois Supreme Court in March 2018 declined to hear the case. However, the Rauner administration maintained that it did not owe anything after January 2016, when it declared an impasse in contract negotiations. The State's Fourth District Appellate Court rejected the impasse claim in October 2018 and sent the issue back to the Illinois Labor Relations Board for reconsideration.

[57] The Pritzker administration issued a report in February 2019 that estimated the FY2020 deficit would be $440 million higher at $3.2 billion due to additional costs for higher education, human services, public safety, employee group health insurance and other purposes. The report is available at https://www2.illinois.gov/IISNews/19698-Digging_Out_-_The_Rauner_Wreckage_Report.pdf (last accessed on February 12, 2019).

[58] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, p. 8.

CIVIC FEDERATION RECOMMENDATIONS

Former Governor Rauner's five-year projection illustrated the fiscal reality that despite the recent tax increases, the State of Illinois' current revenue and spending structures do not provide a sustainable basis for funding essential government services and will lead to unacceptable growth in unpaid bills through FY2024.

In order to achieve stability in the State's long-term finances, a comprehensive financial plan would meet the following goals:

- Ensure future annual operating budgets are balanced;
- Eliminate the backlog of unpaid bills;
- Provide achievable spending limits;
- Avoid drastic revenue cliffs;
- Broaden the tax base to provide sustainable revenue sources;
- Include additional assistance for local governments;
- Set aside reserves for an adequate rainy day fund; and
- Address Illinois' long term challenges, such as unfunded pension liabilities and infrastructure needs.

The Civic Federation's proposal is not comprehensive in that it does not achieve all of these goals within the five year projection but it begins to make progress. In its FY2018 Roadmap, the Federation proposed more sweeping measures in order to surmount the crisis caused by the two-year budget impasse. The proposals raised over $9 billion in new revenue and borrowed $9 billion to pay down the entire backlog.[59] While some of the recommendations were adopted or partially adopted, the State opted not to enact the full package and its financial situation remains precarious. For FY2020 the Federation proposes a more focused plan in order to draw policymakers' attention to needed structural reforms. For example the Federation believes that the State should broaden the base of income taxation before again raising rates.

The Civic Federation's plan proposes the following policy changes to improve the State's fiscal position:

1. Restrict net agency spending growth to 2.4% annually through FY2024 and pursue reasonable savings in employee salary increases and health insurance costs;
2. Eliminate the exclusion of federally taxable retirement income from the State's income tax;
3. Extend the State sales tax to the 14 additional services taxed by the State of Wisconsin;
4. After paying off the backlog of bills, work toward building a rainy day fund equal to 10% of General Funds revenues;
5. Place a constitutional amendment on the ballot to limit the pension protection clause and allow reasonable, moderate changes to curb the growth of current employee and retiree

[59] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2018 Budget Roadmap*, February 10, 2017, p. 34, https://www.civicfed.org/sites/default/files/reportroadmapfy18.pdf (last accessed on February 12, 2019).

benefits necessary to secure the financial sustainability of the State and local governments and the pension systems themselves;

6. In the absence of benefit reform, require annual supplemental payments to the State's systems to target 100% funding by 2045;
7. Merge the Chicago Teachers' Pension Fund (CTPF) with the Teachers' Retirement System, with the State shifting the normal costs onto local school districts and assuming responsibility for unfunded liabilities;
8. Perform a review of State pension fund investment allocation and expense;
9. Create a bipartisan commission to study reallocation of resources among universities and campuses, with the potential for eliminating duplicative programs and closing or consolidating campuses; Consolidate the governance of State universities into a single, statewide Board of Trustees;
10. Continue to pursue reductions in the adult prison population to achieve widely acknowledged social benefits as well as cost savings;
11. Reduce late-payment interest penalties to a market-based rate;
12. Consolidate and streamline government units in Illinois;
13. Complete a comprehensive analysis and prioritization of the State's horizontal and vertical infrastructure needs, including identifying stable, long-term revenue sources; and
14. Avoid unwise budget practices that could impair the State's financial recovery.

The following table shows the effects of the Civic Federation's recommendations on the General Funds budget for the next five years. The plan eliminates the projected FY2020 deficit and begins to pay down the backlog of bills. The projections should be regarded as rough estimates due to data limitations and significant uncertainty about major factors that will affect the State's budget.

State of Illinois Governor's Five-Year General Funds Budget Projection
Includes Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund (in $ millions)

	FY2019 Estimated	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
Revenues						
State Source Revenues	$ 34,085	$ 34,268	$ 34,811	$ 35,732	$ 36,788	$ 37,746
Federal Revenues	$ 3,500	$ 3,605	$ 3,641	$ 3,677	$ 3,714	$ 3,751
Total Baseline Revenues	**$ 37,585**	**$ 37,873**	**$ 38,452**	**$ 39,409**	**$ 40,502**	**$ 41,497**
Civic Federation Revenue Changes						
Reduce Retirement Income Tax Exclusion		$ 2,535	$ 2,654	$ 2,777	$ 2,907	$ 3,042
Sales Tax on Services (Wisconsin Model)		$ 208	$ 478	$ 588	$ 588	$ 588
Net New Revenue Changes	**$ -**	**$ 2,744**	**$ 3,131**	**$ 3,365**	**$ 3,495**	**$ 3,630**
Total Revenues	**$ 37,585**	**$ 40,617**	**$ 41,583**	**$ 42,774**	**$ 43,997**	**$ 45,127**
Expenditures						
Agency Expenditures	$ 26,276	$ 27,183	$ 27,851	$ 28,526	$ 29,206	$ 29,892
AFSCME Step Increases	$ 500	$ 207	$ 214	$ 222	$ 230	$ 238
Net Agency Expenditures	**$ 26,776**	**$ 27,391**	**$ 28,064**	**$ 28,748**	**$ 29,436**	**$ 30,130**
Group Insurance Payments	$ 2,026	$ 2,057	$ 2,129	$ 2,204	$ 2,281	$ 2,360
Net Pension Contributions	$ 7,103	$ 8,188	$ 8,629	$ 9,022	$ 9,217	$ 9,443
Statutory Transfers	$ 428	$ 395	$ 402	$ 409	$ 416	$ 423
Total Debt Service	$ 2,697	$ 2,207	$ 2,260	$ 2,304	$ 2,348	$ 2,385
Total Baseline Expenditures	**$ 39,030**	**$ 40,238**	**$ 41,484**	**$ 42,687**	**$ 43,697**	**$ 44,741**
Civic Federation Expenditure Changes						
CTPF Unfunded Liability		$ 585	$ 602	$ 619	$ 637	$ 655
Shift Normal Cost of CTPF Back to CPS		$ (246)	$ (250)	$ (255)	$ (259)	$ (263)
TRS Normal Cost Shift		$ (365)	$ (690)	$ (1,013)	$ (993)	$ (975)
Net New Expenditure Changes	**$ -**	**$ (26)**	**$ (339)**	**$ (649)**	**$ (616)**	**$ (583)**
Total Expenditures	**$ 39,030**	**$ 40,212**	**$ 41,145**	**$ 42,038**	**$ 43,081**	**$ 44,158**
Operating Surplus (Deficit)	**$ (1,444)**	**$ 404**	**$ 437**	**$ 737**	**$ 916**	**$ 969**
Interfund Borrowing (Repayment)	$ 400	$ (400)	$ (400)			
Surplus (Deficit) After Interfund Borrowing	**$ (1,044)**	**$ 4**	**$ 37**	**$ 737**	**$ 916**	**$ 969**
Bill Backlog	**$ (7,821)**	**$ (7,817)**	**$ (7,780)**	**$ (7,043)**	**$ (6,127)**	**$ (5,158)**
Reserves % of Revenues	**-20.8%**	**-20.6%**	**-20.2%**	**-17.9%**	**-15.1%**	**-12.4%**

Source: State of Illinois, Governor's Office of Management and Budget, *Financial Walk Down (General Funds)* , November 15, 2018; Civic Federation Calculations.

Issue 1: Spending Controls

The Illinois Constitution states that neither the Governor's proposed budget, nor the appropriations adopted by the General Assembly, can exceed estimated revenues.[60] Nevertheless, on a budgetary basis, the State has only avoided General Funds operating deficits in four of the last eleven years.[61] During those years, the State has relied on a number of measures to get from one year to the next, using one-time measures such as sweeps from other funds[62] and borrowing for operations.[63]

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[60] Ill. Const. art. VIII, sec. 2.
[61] For more information, see p. 6 of this report.
[62] Illinois General Assembly, Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary, Fiscal Year 2017,* August 10, 2016, pp. 222-224, http://cgfa.ilga.gov/Upload/FY2017BudgetSummary.pdf (last accessed on February 12, 2019).

As part of this Roadmap, the Civic Federation proposes two new sources of revenue to eliminate deficits and pay down the large backlog of unpaid bills. However, if new revenues are instead redirected to new spending, progress toward fiscal sustainability will be imperiled. Therefore, it is imperative that spending be controlled, and the Civic Federation only endorses revenue increases in the context of a multi-year plan that includes limits on spending.

In its five year projection, Governor Rauner's maintenance budget grew net agency expenditures by only 2.4% per year.[64] The Civic Federation endorses this constrained level of spending growth until the State's fiscal condition can be substantially improved. The Federation believes this level of growth to be conservative. Although the five-year forecast issued a year ago contained a growth level of only 2.1%, it did not include any assumptions for salary increases, cost of living adjustments or interest on the bill backlog.[65] This year the forecast includes step increases for employees in the American Federation of State, County and Municipal Employees (AFSCME), the State's largest union.[66]

Maintaining the 2.4% target while incorporating the likelihood of these expenses means that government services will grow more slowly and some may have to be cut. The task will be made more difficult by the inflexible nature of a large part of the State's expenditures due to State and federal laws and rules, collective bargaining agreements and federal consent decrees.[67]

Opportunities for reducing headcount appear to be limited. The number of non-education State employees has declined by nearly 12% in the last ten years[68] and Illinois ranks third from the bottom in the number of state workers per capita (Indiana is the lowest, followed by Arkansas).[69] Many services funded by the State of Illinois are provided by local governments, healthcare providers and social service agencies instead of by State employees.

Excluding pension costs and health insurance benefits, employee salaries account for a modest part of General Funds expenditures. In FY2018 payroll costs of direct State employees (not

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[63] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois Enacted FY2015 Budget: A Review of the Operating and Capital Budgets for the Current Fiscal Year*, October 19, 2014, p. 54, https://www.civicfed.org/iifs/publications/FY15_EnactedBudget (last visited on February 12, 2019).

[64] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down,* November 15, 2018.

[65] State of Illinois, Governor's Office of Management and Budget, General Funds *Financial Walk Down (General Funds)*, October 11, 2017, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202017/Economic_and_Fiscal_Policy_Report_Five-Year_Projection_10.12.17.pdf (last accessed on February 12, 2019).

[66] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, p. 7. For more information on step increases, see p. 19 of this report.

[67] State of Illinois, Governor's Office of Management and Budget, Illinois Economic and Fiscal Policy Report, October 11, 2017, p. 6.

[68] Illinois Comprehensive Annual Financial Report for the Year Ended June 30, 2017, March 15, 2018, p. 376.

[69] U.S. Census Bureau, *2017 Census of Governments: Employment*, https://www.census.gov/data/tables/2017/econ/apes/annual-apes.html (last accessed on February 12, 2019).

including higher education) represented about 12% of agency spending.[70] These State workers are relatively well paid, ranking seventh in average non-education monthly salary in 2017.[71]

AFSCME has been operating without a contract since the end of FY2015 and was locked in court battles with the previous administration. Governor Pritzker should use this opportunity to negotiate savings in both salary increases and employee health insurance expenses. Reductions to retiree health insurance expenditures are limited by a 2014 ruling by the Illinois Supreme Court.[72] Nevertheless, the State should reduce future costs by eliminating premium-free health insurance upon retirement for new employees.

Civic Federation Recommendation on Spending

The Civic Federation recommends that the State of Illinois limit net agency spending growth to 2.4% annually through at least FY2024 and pursue reasonable savings in State employee salary increases and health insurance costs.

Issue 2: Retirement Income Exclusion

Unlike the federal government, which taxes certain levels of Social Security benefits and other retirement income, Illinois excludes all retirement income from the State's income tax base.[73] Out of the 41 states that impose an income tax, Illinois is one of three that exclude all pension income and one of 27 that exclude all federally taxable Social Security income.[74]

The Illinois Comptroller reports that this exclusion of federally taxable retirement income reduced individual income tax revenues by $2.3 billion in FY2015.[75] In years when the Illinois personal income tax rate is at or near the current rate of 4.95%, this exclusion is the most expensive of all of the State's tax breaks and the cost is expected to increase rapidly over time as the population ages.[76]

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[70] This calculation is based on payroll costs of $2.8 billion and estimated net agency spending excluding higher education of $24.5 billion.

[71] U.S. Census Bureau, *2017 Census of Governments: Employment*.

[72] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/Opinions/SupremeCourt/2014/115811.pdf (last accessed on February 12, 2019). For more information, see p. 29 of this report.

[73] 35 ILCS 5/203(F).

[74] Excludes the District of Columbia. National Conference of State Legislatures, *State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2014*, April 3, 2015. At the federal level, between 15% and 100% of Social Security benefits are excluded from taxation. Generally, Social Security benefits are not taxable if they represent a taxpayer's only income. If base income is up to $25,000 for an individual or $32,000 for joint filers, then no tax is owed. Base income is the sum of half of Social Security benefits plus all other income. Internal Revenue Service, Publication 915, "Social Security and Equivalent Railroad Retirement Benefits, 2018," January 9, 2019, pp. 2-4.

[75] State of Illinois Comptroller, *Tax Expenditure Report Fiscal Year 2015*, April 2016, p. 4, https://illinoiscomptroller.gov/financial-data/find-a-report/tax-expenditure-report/fiscal-year-2015/ (last accessed on February 12, 2019). The personal income tax rate fell from 5.0% to 3.75% halfway through FY2015. Accordingly, the total revenue reduction from the exclusion was only $1.8 billion in both FY2016 and FY2017. The rate was raised to 4.95% beginning in FY2018. State of Illinois Comptroller, *Tax Expenditure Report Fiscal Year 2016*, August 2017, p. 4; State of Illinois Comptroller, *Tax Expenditure Report Fiscal Year 2017*, December 2018, p. 4.

[76] State of Illinois Comptroller, *Tax Expenditure Report Fiscal Year 2013*, April 2014, p. 7.

Historically, retirement income has grown at a much higher annual rate than regular income. Between 2007 and 2016, retirement income in Illinois (excluding federally taxable Social Security benefits) grew at an average annual rate of about 4.7%, while other personal income increased on average by only 0.9% per year.[77]

Including this high-growth component in the income tax base would provide for a more sustainable revenue source for the State. At the current personal income tax rate of 4.95%, the additional State revenue from taxing the federally taxable portion of retirement income is estimated to be $2.5 billion in FY2020 and is projected to grow to $3.0 billion FY2024. The proposal would also provide local governments with an estimated $162 million in FY2020, growing to $196 million in FY2024.[78]

To raise the equivalent amount of revenue by increasing the rates on the existing tax base would require a hike of approximately 0.50 percentage points in the personal income tax rate and a proportionate 0.85 percentage points in the corporate income tax.[79] This would be on top of the rate increase on working taxpayers in 2017, while retirees have not yet been asked to contribute to the State's financial recovery.

Illinois is an outlier regionally among bordering states in excluding all retirement income. Although Michigan, Indiana, Wisconsin, Iowa and Missouri all exempt Social Security income, they tax other retirement income. Indiana has the lowest rate of 3.23%, which is a flat income tax rate applied to non-Social Security retirement income.[80] Iowa charges the highest rate, which is the top rate on its graduated income tax scale of 8.98% applied to earners above $71,910, but also exempts specified amounts of retirement income for taxpayers aged 55 or older.

Civic Federation Recommendation on the Retirement Income Exclusion

The Civic Federation recommends that the State of Illinois broaden its income tax base by eliminating the tax exclusion for all federally taxable retirement income. This will enhance the State's fiscal stability by providing access to a faster growing portion of the income tax base, generating FY2020 revenues of over $2.5 billion.

Issue 3: Sales Tax on Services

One of the basic principles of government finance is that to be stable and efficient a tax should generally have as broad a base and as low a rate as possible. Unfortunately, Illinois' sales tax does not live up to either ideal. According to a revenue study issued by the Commission on

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[77] Civic Federation calculations based on Internal Revenue Service, *SOI Tax Stats-Historic Table 2*, https://www.irs.gov/uac/soi-tax-stats-historic-table-2 (last visited on February 12, 2019).
[78] Civic Federation calculations based on Illinois Department of Revenue, *Illinois Individual Income Tax Returns with Retirement Income Subtraction: Tax Year-2016-Final*, August 2018, https://www2.illinois.gov/rev/research/taxstats/IndIncomeStratifications/Documents/Revised_2016_Final_IIT%201040%20IL%20Return.pdf (last visited on February 12, 2019).
[79] Civic Federation calculations; State of Illinois, Governor's Office of Management and Budget, *Financial Walk Down (General Funds)*, November 15, 2018.
[80] Federation of Tax Administrators, "State Individual Income Taxes 2018," July 1, 2018, https://www.taxadmin.org/assets/docs/Research/Rates/ind_inc_070118.pdf (Last accessed on February 12, 2019). Many Indiana counties charge an additional income tax.

Government Forecasting and Accountability (COGFA), Illinois' sales tax base is much narrower than those in other states, leading to greater volatility and higher rates.[81]

While the statewide sales tax rate is a moderate 6.25%, the combined sales tax rate in the City of Chicago is the highest of any major municipality in the United States at 10.25%.[82] The remaining 4.0 percentage points are charged by local taxing authorities. Of the State's 6.25 percentage points, 1.25 percentage points are distributed to local governments, counties and mass transit districts.[83]

One cause of Illinois' narrow sales tax is that the State excludes most services from its tax base. Out of the 168 total services taxed by states, Illinois currently taxes only 17.[84] Most of these are related to the delivery of utility services, such as gas, electricity and telecommunications. The remaining services are the Retailers Occupation Tax on prepaid phone cards, photograph processing and canned (as opposed to custom-designed) software; a 5% tax on hotel operations and automobile renting; and a $30 annual fee on coin-operated amusement devices.

In addition to narrowing the sales tax base, the exclusion of services exposes Illinois to negative long-term revenue trends. Nationwide sales tax revenues have grown more slowly than other state revenues in recent years, in part because of online sales.[85] Moreover, goods have declined relative to services as a proportion of total consumer spending.[86] As part of a path to sustainable state finances, Illinois should contemplate expanding its sales tax to cover consumer services.[87] The shift should lead to increased revenue stability and lessen the gradual erosion of one of the "Big Three" revenues for the State.[88]

Any taxation of services is expected to be controversial and draw intense opposition from a variety of special interest groups. During his 2014 gubernatorial campaign, former Governor Rauner proposed broadening the sales tax base in Illinois to include 32 services that are currently untaxed, which was estimated to generate an additional $600 million in General Funds

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[81] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois Revenue Volatility Study, Public Act 98-0682*, Updated February 17, 2015, p. 66, http://cgfa.ilga.gov/Upload/IllinoisRevenueVolatilityStudy_2014CGFA.pdf (last accessed on February 12, 2019).
[82] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois' National Rankings – 2018 Update*, December 2018, p. 12, http://cgfa.ilga.gov/Upload/2018ILNationalRankings.pdf (last accessed on February 12, 2019).
[83] Illinois General Assembly Legislative Research Unit, *Illinois Tax Handbook for Legislators*, 34th Ed., February 2018, p. 110, http://www.ilga.gov/commission/lru/2018TaxHandbook.pdf (last accessed on February 12, 2019).
[84] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Service Taxes 2017 Update*, January 2017, pp. 2-3, http://cgfa.ilga.gov/Upload/ServiceTaxes2017update.pdf (last accessed on February 12, 2019).
[85] Jackson Brainerd, "Taxed and Spent: Does the Sales Tax Have a Future?" *State Legislatures Magazine*, June 1, 2016.
[86] Fred Nicely and Liz Malm, National Conference of State Legislators, *Broadening the Sales Tax Base Dos and Don'ts*, http://www.ncsl.org/documents/statefed/Sales_Tax_Base_Expansion_Practices.pdf (last visited on February 12, 2019).
[87] Experts generally advise against assessing sales taxes on business-to-business services, as the taxes "pyramid" into much higher rates as services are delivered through the supply chain. The pyramiding can lead to arbitrary tax discrepancies depending on which services are vertically integrated within a firm as well as other distortions. Fred Nicely and Liz Malm, National Conference of State Legislators, *Broadening the Sales Tax Base Dos and Don'ts*.
[88] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois Revenue Volatility Study*, Updated February 17, 2015, p. 65.

revenue.[89] However, this proposal was not pursued by the Rauner administration. In the spring of 2017, early versions of Senate Bill 9, the revenue bill that eventually became part of the enacted FY2018 budget, would have applied the sales tax to services including dry cleaning, lawn care, vehicle repair, television and internet streaming services, pest control, private detective services, tanning, tattooing and various others.[90] However, these measures were taken out of the final bill.[91]

In addition to the political challenge, attempts to expand service sales taxes will likely face legal challenges based on the Illinois Constitution, which states that all objects within a taxation class must be taxed uniformly.[92] At least one Illinois Supreme Court case suggests that the uniformity clause prohibits adding individual services to the current sales tax laws incrementally.[93]

The final challenge to expanding service sales taxes is implementation. A broad-based service sales tax exempting only business-to-business services could take at least 18 to 24 months to implement fully.[94] Even after legislative action is taken to authorize taxing services, the complexity of collecting the tax may require new rules for sourcing and other administrative guidelines. Some of the new procedures may require review and approval by the General Assembly's Joint Committee on Administrative Rules. Other delays due to technology acquisition for businesses that do not currently collect sales taxes and connectivity with the Illinois Department of Revenue's existing systems should also be assumed. Finally, there is a one-month lag between collecting sales taxes and remission to the State.

In light of these challenges, the Civic Federation recommends an initial extension of sales taxes to only those services currently taxed by the State of Wisconsin but not by Illinois. These fourteen services include entertainment; cable and internet; landscaping; parking and towing; repair of personal property; and contracts for the future performance of services.[95]

While following the Wisconsin model would not broaden the tax base as widely as a more general service sales tax, it could face less widespread opposition and may be more feasible to implement on a short timeframe. An analysis by COGFA suggests that a sales tax on these services implemented in January 2020 could generate about $208 million in additional State revenue in FY2020 at the State's 5.0% rate, growing to $588 million in FY2024.[96] The estimate assumes only 67% compliance in the first year, 75% in the second year and 90% thereafter.

The Civic Federation Recommendation on Expanding the Sales Tax Base

The Civic Federation recommends that the State of Illinois expand the sales tax base to include the fourteen services taxed by the State of Wisconsin.

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89 Paul Merrion, "Rauner, the anti-tax candidate, finds a tax he likes: on services," *Crain's Chicago Business*, July 26, 2014.

90 Kiannah Sepeda-Miller, "Illinois Considers Applying Sales Taxes to More Services," *Associated Press*, March 12, 2017.

91 Public Act 100-0022, enacted July 6, 2017.

92 Illinois Constitution, Art. IX, Sec. 2.

93 Fiorito v. Jones, 39 Ill.2d 531, 236, N.E. 2d 698 (Ill. 1968).

94 Communication between the Civic Federation and Illinois Department of Revenue, December 9, 2016.

95 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Service Taxes 2017 Update*, January 2017, p. 19.

96 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Service Taxes 2017 Update*, January 2017, p. 19; Civic Federation Calculations.

Issue 4: Rainy Day Fund

Building a financial cushion to deal with future economic downturns is a key element in restoring the State to fiscal stability. The possibility of a recession is factored into the most recent revenue projections by the Governor's Office of Management and Budget.[97]

According to public finance experts, all governments should place a portion of their general operating revenues in a general fund reserve or "rainy day" fund.[98] Rainy day funds are savings accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates.

Governments that maintain adequate reserves are better positioned to deal with funding issues in bad times. Putting money into reserves is a more fiscally prudent action than spending surplus funds on new or expanded programs. The median rainy day fund balance among states in FY2018 was 6.4% of general funds expenditures, according to a survey by the National Association of State Budget Officers.[99]

Illinois has not maintained a functional rainy day fund, although a law was enacted in 2004 to build such a fund. [100] The law established a goal of maintaining 5% of General Funds revenues in an existing account called the Budget Stabilization Fund. According to the law, the fund would be used to reduce the need for future tax increases or short-term borrowing, maintain high credit ratings and address budgetary shortfalls. In authorizing withdrawals from the fund, priority was to be given to services for children. Deposits into the fund would be triggered by projected revenue growth of more than 4% from the prior year.

The fund has never received significant resources, however, apparently because annual revenue projections have not met the threshold requirement to trigger deposits into the fund.[101] The balance of about $275 million at the end of FY2015 represented less than 1% of General Funds revenues.

Instead of being used to withstand fiscal emergencies, the fund was used for cash flow problems resulting from timing variations between receipt and disbursement of funds in a given fiscal year.[102] By law, any cash flow borrowings transferred during a fiscal year from the Budget Stabilization Fund to the General Funds are to be reimbursed by a transfer back by the end of that fiscal year.[103]

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[97] State of Illinois Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 15, 2018, p.4.
[98] Government Finance Officers Association, *Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund*, September 2015.
[99] National Association of State Budget Officers, *The Fiscal Survey of States Fall 2018*, p. 68.
[100] Public Act 93-660, enacted on February 2, 2004.
[101] The law was amended to prohibit any deposits into the fund in FY2008.
[102] Commission on Government Forecasting and Accountability, *Revenue Volatility Study, Public Act 98-0682*, Updated February 17, 2015, p. 88.
[103] 30 ILCS 105/6z-51(b). The law was amended to defer cash repayment for FY2011 until July 15, 2011.

Due to the State's financial crisis, this provision was changed to allow amounts in the Budget Stabilization Fund to be used to pay expenses and not repaid in FY2017.[104] As part of the stopgap spending plan passed in June 2016, the Fund's entire balance was appropriated to pay for State operations in FY2017.[105]

Budget legislation in FY2018 made the Budget Stabilization Fund one of the State's General Funds, which are now used interchangeably.[106] The FY2018 budget authorized borrowing and transfers from accounts outside of General Funds to help pay down the bill backlog, and the Budget Stabilization Fund is a repository for those receipts.[107]

The Civic Federation believes that once the backlog of bills is paid off, the State should establish a true rainy day fund with a funding goal of 10% of General Funds revenues. This goal was suggested by the General Assembly's Commission on Government Forecasting and Accountability (COGFA) in light of recent revenue volatility.[108] COGFA examined two funding strategies—making deposits into the fund only when revenues are growing rapidly or making regular deposits regardless of revenue growth—and determined that each presented challenges. While funding mechanisms that depend on excess revenues can have wide variations in annual funding, regular funding puts annual pressure on the budget.[109]

Civic Federation Recommendation on Rainy Day Fund

After the backlog of bills is paid off, the State of Illinois should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. Legislation must explicitly indicate when deposits will be made and in what amount and the circumstances under which withdrawals will be allowed.

Issue 5: Constitutional Amendment to Limit the Pension Protection Clause

The State of Illinois has unfunded public employee pension liabilities of approximately $133.7 billion[110] and many local governments are either straining under the cost of employee pensions or facing the possibility that the funds will run out of money to pay retirees.

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[104] Public Act 99-0523, signed on June 30, 2016.

[105] State of Illinois Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report,* November 15, 2017, p. 11.

[106] Illinois General Assembly, Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2018*, Updated September 5, 2017, p. 33. Prior to FY2018, General Funds consisted of the General Revenue Fund, Education Assistance Fund, Common School Fund and General Revenue-Common School Special Account Fund. Three additional accounts—the Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund—were added to General Funds in FY2018.

[107] Public Act 100-0023, enacted on July 6, 2017.

[108] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois Revenue Volatility Study Public Act 98-0682*, Updated February 17, 2015, p. 99.

[109] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois Revenue Volatility Study Public Act 98-0682*, Updated February 17, 2015, p. 103.

[110] Illinois General Assembly, Commission on Government Forecast and Accountability, "Special Pension Briefing," *Monthly Briefing for the Month Ended: November 2018*, p. 2. This figure is based on the actuarial value of assets, which involves asset smoothing; based on the market value of assets, the unfunded liability was $133.5 billion.

In May 2015, the Illinois Supreme Court struck down reforms passed by the Illinois General Assembly in 2013 that reduced pension benefits for some State employees and retirees.[111] The reforms of Public Act 98-0599 for the four State pension funds included an actuarially sound employer pension contribution schedule, a limitation on the automatic annual annuity increase for both current employees and retirees, a pensionable salary cap, phased-in increases in the retirement age and a one percentage point decrease in employee contributions to the plan. These reforms were ruled a violation of the Illinois Constitution's pension protection clause, which establishes membership in a State retirement system as "an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."[112] According to the high court's opinion, the constitutional protection begins when a worker is hired, and any subsequent changes to pension law that diminish benefits may not be applied to that employee.

In March 2016, pension funding and benefit reforms enacted in 2014 for the City of Chicago's Municipal and Laborers' Pension Funds were struck down by the Illinois Supreme Court as well.[113] Public Act 98-0641 made changes to pension benefit levels for current retirees and employee members of the two funds and increased employee and employer contributions to the funds. The Illinois Supreme Court again found the reforms to be in violation of the Illinois Constitution's pension protection clause. Of note, the Court ruled that members of the Funds are entitled to receive the benefits they were promised and "not merely to receive whatever happens to remain in the Funds." How the courts could enforce funding if any of the pension funds were to go insolvent is unclear.

In recent years, the State of Illinois has attempted to accommodate increased pension contributions by cutting benefits for future employees, offering voluntary pension buyouts, increasing income taxes, reducing non-pension spending, maintaining a large backlog of unpaid bills and, as in FY2018, smoothing the budgetary impact of new actuarial assumptions in order to reduce current contributions. However, even these actions could not generate enough funding to cover the costs of the pensions. The State's unfunded liabilities and required contributions have continued to increase even as it made its statutorily required contributions to the funds. Pension costs (including contributions and debt service on pension bonds) are expected to absorb 24.5% of State-source General Funds revenues in FY2019, up from 8.3% in FY2008. The share of revenues devoted to non-pension purposes will decline to an estimated 75.5% from 91.7%.[114]

Local governments are also facing burgeoning pension liabilities that have required significant increases to property taxes in Chicago and a huge one percentage point increase in the Cook County sales tax rate. In the case of Chicago its funding schedule will require hundreds of millions of dollars more in yet-to-be-named revenue enhancements in 2020 and 2022.

The State's high court has also ruled that the pension protection clause limits reductions to health insurance benefits for retirees. As a cost-cutting measure in 2012, Illinois passed Public Act 97-

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[111] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf (last accessed on February 12, 2019).
[112] Ill. Const. art. XIII, sec. 5.
[113] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf (last accessed on February 12, 2019).
[114] For more information on these calculations, see Appendix A.

0695, which eliminated premium-free health insurance for retirees. The State had been paying the entire premium bill for those who retired prior to 1998; for those who retired beginning in 1998, the State contributed 5% of the premium cost for each full year of service, up to a maximum of 100% for retirees with 20 or more years of service. However, in July 2014 the Illinois Supreme Court rejected the elimination of these subsidies, holding that State subsidies for retiree health insurance premiums were a pension benefit covered by the pension protection clause.[115] Illinois has continued to pay the subsidies since then. The State's accrued liability for retiree health benefits was $38.1 billion as of the end of FY2016, the most recent figure available.[116] Health insurance coverage for retirees and their dependents was expected to cost the State $1.0 billion in FY2018.[117]

If pension and retiree health insurance benefits cannot be changed under the current Illinois Supreme Court's interpretation of the Illinois Constitution's pension protection clause, then large and growing amounts of State and local revenues will continue to need to be diverted from spending on crucial government services such as social services and public safety. The Civic Federation does not believe that it is fiscally sustainable for the State of Illinois to continue to spend such a large portion of its budget to defray the cost of benefits for workers who have long since ceased to provide services to the residents of the State of Illinois. However, it is also important to note that many public employees in Illinois do not have access to Social Security benefits for their time working for government and therefore their pension is their only source of retirement security.

Accordingly, the Civic Federation recommends that the Illinois General Assembly vote to place a proposed constitutional amendment to the pension protection clause on the ballot no later than the 2020 general election. The amendment would limit the pension protection clause to allow the Illinois General Assembly to make reasonable and moderate changes to the pension benefits of current employees and retirees deemed necessary to secure the sustainability of the State and local governments. The people of Illinois deserve the opportunity to weigh in on such an important matter that will determine the level of services available in the future to the State of Illinois' most vulnerable populations and the sustainability of the pensions themselves.

Civic Federation Recommendation on Constitutional Amendment to Limit the Pension Protection Clause

The Illinois General Assembly should vote to place a constitutional amendment on the ballot no later than the 2020 general election that would limit the pension protection clause and allow reasonable, moderate changes to current employee and retiree benefits necessary to secure the financial sustainability of the State and local governments and the pension systems themselves.

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[115] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/Opinions/SupremeCourt/2014/115811.pdf (last accessed on February 2, 2019).

[116] State of Illinois, FY2017 Comprehensive Annual Financial Report, p. 153. Unlike pensions, State health insurance benefits are not pre-funded; instead, expenses are covered on a pay-as-you-go basis.

[117] Illinois General Assembly, Commission on Government Forecasting and Accountability, *FY2018 Liabilities of the State Employees' Group Health Insurance Program*, March 2017, p. 23, http://cgfa.ilga.gov/Upload/FY2018GroupInsuranceReport.pdf (last accessed on February 12, 2019). This figure includes both General Funds and other State funds.

Issue 6: Supplemental Pension Payments

The likelihood of successfully enacting a constitutional amendment to limit employee pension benefits is not guaranteed. Moreover, the enactment of an amendment and subsequent statutory reforms mean that savings to the State cannot occur until at least FY2021. In the meantime, the State must make plans to address inadequate pension funding under current constitutional law.

For many years, the State of Illinois has maintained the official position that a 90% funded ratio for its pensions is an adequate target.[118] Public Act 88-593 enacted a 50-year contribution schedule that would achieve 90% funding by 2045.[119] As part of the Act, the Commission on Government Forecasting and Accountability is required by law to revisit the adequacy of the 90% target every five years,[120] and it affirmed this view most recently in 2006[121] and 2011[122]. As part of its 2016 review, however, COGFA presented the view of its actuary, Segal, that the 90% target is insufficient.[123]

The Civic Federation endorses the view that an actuarially sound pension payment plan calculates annual contributions to achieve a target of 100% funding within, at most, 30 years. A target of 100% helps to ensure the stability of a fund by protecting against market downturns. No well-run pension fund has a funding target level of less than 100%.[124]

Under the pension reform law that was passed in 2013, the State would have moved to an actuarially based 30-year funding plan and made supplemental contributions to achieve 100% funding even sooner.[125] However, these provisions were overturned when the pension reform law was ruled unconstitutional in its entirety by the Illinois Supreme Court.[126] The State now remains on its original inadequate 50-year funding plan. According to the five pension systems'

[118] 40 ILCS 1-103.3(b).
[119] Enacted August 22, 1994.
[120] 40 ILCS 1-103.3(c).
[121] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Report on the 90% Funding Target of Public Act 88-0593*, January 2006, http://cgfa.ilga.gov/Upload/Funding_PA_88-0593.pdf (last accessed on February 12, 2019).
[122] Illinois General Assembly, Commission on Government Forecasting and Accountability, *A Report on the Appropriateness of the 90% Funding Target of Public Act 88-593*, June 2011, http://cgfa.ilga.gov/Upload/Appropriateness90_PensionFunding2011.pdf (last accessed on February 12, 2019).
[123] Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Is 90% Pension Funding the Right Target for Illinois?" December 7, 2016, https://www.civicfed.org/iifs/blog/90-pension-funding-right-target-illinois, (last accessed on February 12, 2019); Illinois General Assembly, Commission on Government Forecasting and Accountability, *Monthly Briefing*, November 2016, p. 12, http://cgfa.ilga.gov/Upload/1116.pdf (last accessed on February 12, 2019).
[124] Government Finance Officers Association, *Best Practice: Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)*, January 2016, https://www.gfoa.org/sustainable-funding-practices-defined-benefit-pensions-and-other-postemployment-benefits-opeb (last accessed on February 12, 2019); American Academy of Actuaries, *The 80 Percent Pension Funding Myth*, April 2014, http://www.actuary.org/files/Pension%20Funding.pdf (last accessed on February 12, 2019); Society of Actuaries, *Report of the Blue Ribbon Panel on Public Pension Plan Funding*, February 2014, p. 6, https://www.soa.org/Files/Newsroom/brp-report.pdf (last accessed on February 12, 2019).
[125] Public Act 98-0599, enacted on December 5, 2013.
[126] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf (last accessed on February 12, 2019).

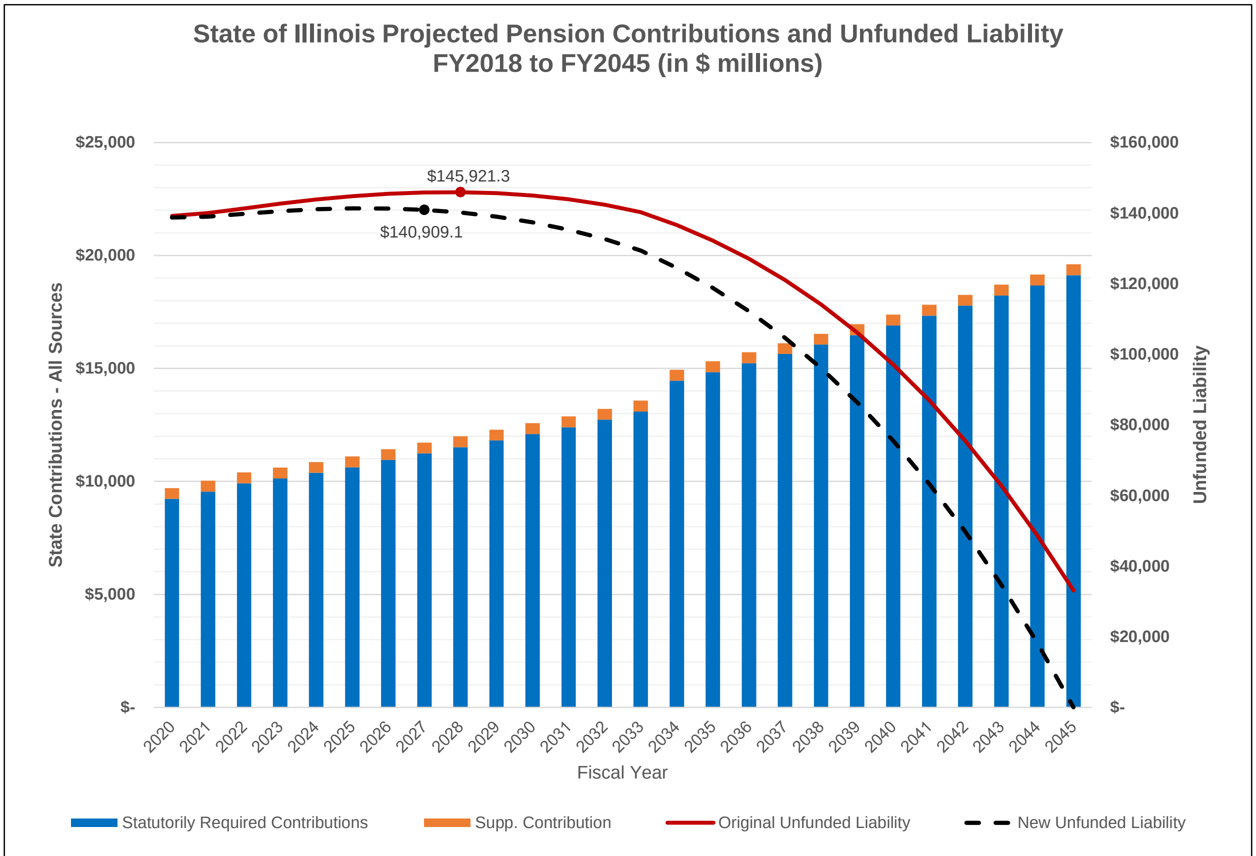
FY2018 actuarial valuations, even after making its full statutory contribution, pension liabilities are expected to continue to grow annually, not beginning to drop until FY2029.[127]

Under Public Act 98-0599, the State would have been required to make supplemental payments totaling $364 million in FY2019 and $1.0 billion annually thereafter to the Pension Stabilization Fund until FY2045 or when the systems are all 100% funded. The payments would be transferred to the Pension Stabilization Fund and distributed among the five State retirement systems. Under the law, the additional assets from the supplemental payments could be used when calculating the funding ratios of the various pension funds but not when determining the annual contributions. The State was also prohibited from using any of the funds transferred into the Pension Stabilization Fund to offset or replace its actuarially based contribution. These restrictions were intended to make the supplemental payments a pure add-on to its required annual contributions.

A supplemental payment plan similar to the one included in the 2013 pension reform law could still be affordable if the State were to dedicate a stream of new revenues. Based on the FY2018 actuarial estimates,[128] if the State made annual payments of $482 million, starting in FY2020 and continuing through FY2045 the State's retirement systems would experience a decline in unfunded liabilities beginning in FY2028 and would be 100% funded by FY2045. Assuming a long-term rate of return equal to the current 7.0% used by the Teachers' Retirement System, the $12.5 billion in supplemental payments plus their investment earnings would increase the assets of the retirement systems by $33.1 billion by FY2045.

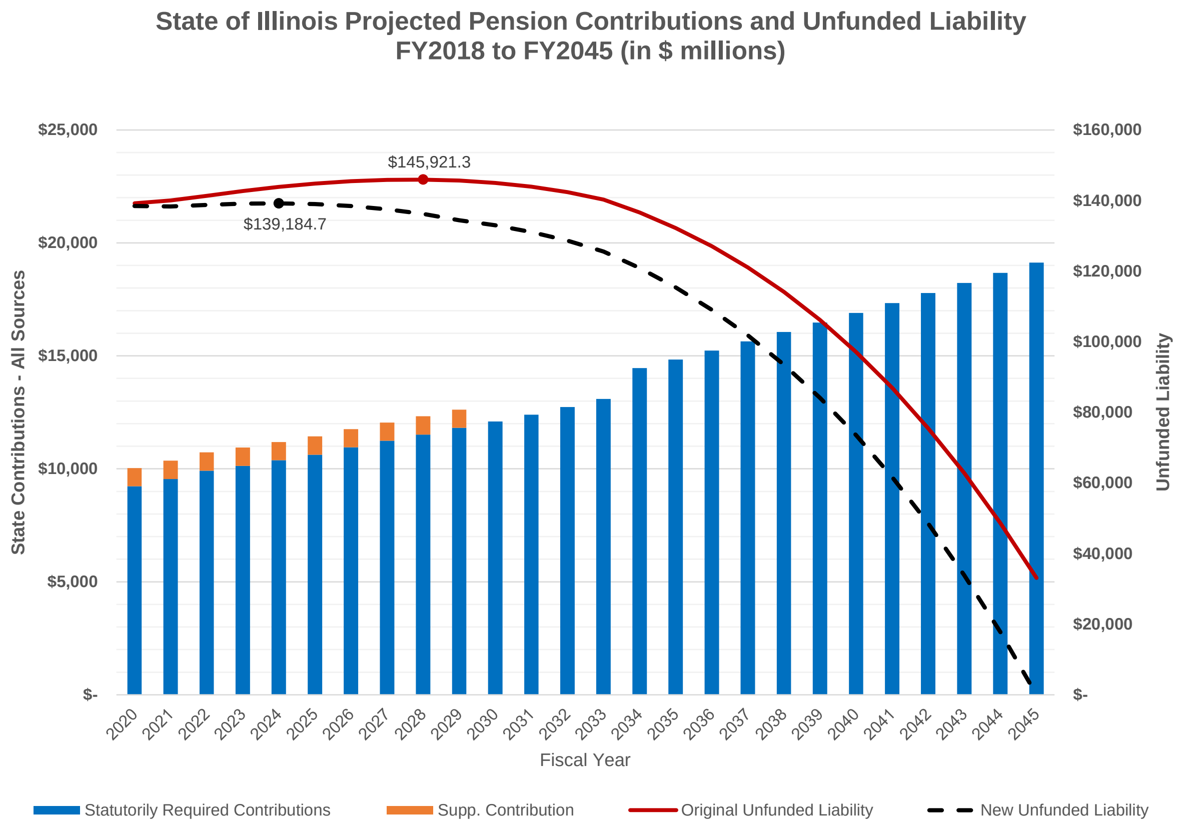
[127] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2018, p. 13.
[128] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2018, p. 13.

The following chart shows the effect of the proposed supplemental contribution schedule on the systems' unfunded liabilities. A table showing the calculations is included in Appendix D.



Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, "Special Pension Briefing," November 2018, p. 13; Civic Federation calculations.

If the State were to find revenues for higher supplemental payments, the long-run savings would be greater. Ten annual payments of $811 million would also be sufficient to get the systems to 100% funding by 2045. The total cost of this plan $8.1 billion, compared with the $12.5 billion in the plan discussed above. The following chart shows the effect of higher supplemental contributions. Calculations are included in Appendix D.



Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, "Special Pension Briefing," November 2018, p. 13; Civic Federation calculations.

<u>Civic Federation Recommendation on Supplemental Pension Payments</u>
In order to mitigate the underfunding of the State's pension systems due to inadequate statutory payments, the Civic Federation recommends identifying revenues to make annual supplemental payments sufficient to reach 100% funding by FY2045.

Issue 7: Merger of the Chicago and State Teachers' Pension Funds

The Civic Federation recommends that the Chicago Public Schools (CPS) work with the General Assembly and the Teachers' Retirement System (TRS) to consolidate the Chicago Teachers' Pension Fund (CTPF) with TRS.

In conjunction with this change, CPS should resume paying for the normal cost of its plan, which became the State's responsibility under education funding reform legislation passed in 2017, and the State should pay for the unfunded liability of CTPF.[129] Responsibility for paying the normal cost of each school district outside of Chicago should be shifted over three years to that school district.

Consolidating CTPF and TRS would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the unfunded pension liability costs of Chicago teachers as well as teachers outside the city. It would also achieve some cost efficiencies as duplicative functions were eliminated.

Under a consolidation plan, the CTPF and TRS systems would be managed by a single pension board that would have proportional representation for both teachers' pension funds. However, the current member plans would be maintained as separate accounts.

The State of Illinois would assume responsibility for the unfunded liability of CTPF, while CPS would resume funding the pension fund's normal cost (the annual cost of the pension plan's benefits). In FY2020 the assumption of the CTPF unfunded liability would cost the State $584.5 million, while shifting the normal cost back to CPS would reduce State expenses by $245.5 million.[130]

The Civic Federation believes that school districts outside Illinois should assume funding the full normal cost of their employee pensions. The responsibility for contributing to a worker's pension should rest with the employer who determines the worker's salary. The shift would help inject greater fiscal accountability into school district operations and budgeting and would offset the State's additional cost of taking on the unfunded liability of Chicago teachers' pensions.

In FY2020 the State's statutorily required contribution to TRS is $4.8 billion, of which about $1.1 billion goes toward the normal cost.[131] The shift of the State's share of normal cost to school districts could be achieved gradually, over a period of three years, to allow school districts sufficient time to adjust to the change. It would be offset to a small extent by the return to the districts of their contributions to amortize the unfunded liability, which amount to $84 million in FY2020.[132] To help districts pay for the additional net pension costs, school districts could end the practice of paying or "picking up" all or a share of the annual 9.4% employee pension contribution.

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[129] Public Act 100-0465, enacted on August 31, 2017. The legislation's funding formula effectively contributes a portion of CPS' unfunded liability costs by removing the amount that CPS must contribute to these costs from its local funding capacity. This amount would be eliminated from the funding formula under the Civic Federation's merger proposal.

[130] Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation Report as of June 30, 2018*, November 21, 2018, p. 1, www.ctpf.org/sites/main/files/file-attachments/ctpf_val_2018_final_12.11.2018.pdf (last accessed on February 12, 2019).

[131] Teachers' Retirement System of the State of Illinois, *Actuarial Valuation and Review of Pension Benefits as of June 30, 2018*, January 11, 2019, pp. 65, 66 and 83, https://www.trsil.org/sites/default/files/documents/TRSFinalActuarialValuationforJune_30_2018.pdf (last accessed on February 12, 2019); Communication between the Civic Federation and the Teachers' Retirement System of the State of Illinois, February 2, 2018. The State share of employer normal cost in FY2020 is $1.141 billion or 10.41% of payroll.

[132] Teachers' Retirement System of the State of Illinois, *Actuarial Valuation and Review of Pension Benefits as of June 30, 2018*, January 11, 2019, p. 65.

The merger proposal would require changes to the new education funding formula. The Civic Federation recognizes that the State may need to assist less wealthy school districts with this transition. Accordingly, savings to the State may be less than the amount of the full pension cost shift. The merger plan would also require the elimination of a Tier 3 pension plan authorized as part of the FY2018 budget.[133] The Tier 3 plan, which would require school districts to pay pension costs for new teachers, has not been implemented and an effective date has not yet been determined.[134]

It is reasonable for the State of Illinois to continue to bear financial responsibility for the unfunded liability of all school districts because:

- The State created the current expensive and unsustainable situation that has led to $75.3 billion in unfunded liability and a funded ratio of 40.7% for TRS as of June 30, 2018[135] and $12.0 billion in unfunded liability and a funded ratio of 47.9% for CTPF as of the same date;[136] and
- Paying these enormous costs is beyond the capability of local school districts to readily absorb. This is particularly the case because they rely heavily on property taxes to fund their operations and many are subject to the property tax extension limitation law (PTELL), which limits levy increases to 5% or the rate of inflation, whichever is less.

To achieve both equity and accountability, the State should assume responsibility for CTPF's unfunded liability rather than paying for the District's normal costs.

Civic Federation Recommendation on CPS and State Teachers' Pension Funding Reform
The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the Teachers' Retirement System and that the State assume responsibility for the unfunded liability of CTPF. The Federation also recommends that the Chicago Public Schools resume paying for the normal cost of Chicago teachers' pensions and that responsibility for the normal cost of pensions for all teachers outside of Chicago be shifted from the State of Illinois to local school districts over three years.

[133] Public Act 100-0023, enacted on July 6, 2017. Implementation of Tier 3 has not begun due to the need for additional legislation. The Civic Federation takes no position on Tier 3's hybrid defined benefit/defined contribution plan, which is not expected to affect the State's contribution amount. This portion of the Tier 3 plan could be retained even as the cost shift is replaced.
[134] Teachers' Retirement System of the State of Illinois, *Determining TRS Membership in Tier 1, Tier 2 or Tier 3*, Updated August 1, 2018, https://www.trsil.org/news-and-events/pension-issues/determining-tier-membership (last accessed on February 12, 2019).
[135] Teachers' Retirement System of the State of Illinois, *Actuarial Valuation and Review of Pension Benefits as of June 30, 2018*, January 11, 2019, p.5. These figures are based on asset smoothing.
[136] Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation Report as of June 30, 2018*, November 21, 2018, p. 1.These figures are based on asset smoothing.

Issue 8: Pension Investment Expense and Asset Allocation

Illinois' largest pension fund, the Teachers' Retirement System, reported investment expenses of $778.6 million in FY2017, or 1.58% of its $49.4 billion in assets.[137] A study in December 2018 by a Pennsylvania state commission found that TRS had the highest investment expense ratio among large public pension funds in the U.S.[138]

Given the vast reporting discrepancies among public pension funds, this ranking may be less significant that it appears at first glance.[139] TRS, which covers public school teachers outside of Chicago, more than doubled its reported investment expenses beginning in FY2016 due to expanded disclosures rather than an actual increase in expenses.[140]

However, the issue of how public pension funds invest their assets and how much they pay for these investments deserves additional scrutiny.[141] Over the last decade, pension funds across the country have increasingly turned to so-called alternative investments that are not publicly traded, such as real estate, private equity and hedge funds, to meet investment return targets. Alternative assets can bring higher return, but they are also riskier and carry higher fees.

In FY2017 TRS had 40.3% of its portfolio in alternative investments, 35.5% in stocks and 21.5% in bonds;[142] for the 81 public pension funds with assets over $10 billion that report allocations, the average asset allocation mix was 26.2% alternative investments, 48.9% stocks and 22.4% bonds, according to Boston College's Public Plans Data.[143] These numbers don't sum to 100% because of a small percentage of assets in cash and other investments.

Alternative assets require high-fee active management rather than low-fee indexing. An active investing approach involves managing a portfolio to outperform the returns of a given market index, while index or passive investing involves investing in a set of securities to replicate the performance of a market index. TRS uses indexing for 33.5% of its stock portfolio.[144] The State

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[137] Teachers' Retirement System of the State of Illinois, FY2017 Comprehensive Annual Financial Report, p. 27, https://www.trsil.org/sites/default/files/documents/fy2017_8.pdf (last accessed on February 12, 2019). In FY2018 the number grew by 8.4% to $843.9 million, or 1.62%. Teachers' Retirement System of the State of Illinois, FY2018 Comprehensive Annual Financial Report, p. 27, https://www.trsil.org/sites/default/files/documents/CAFR-FY2018_0.pdf (last accessed on February 12, 2019).

[138] General Assembly of the Commonwealth of Pennsylvania, Public Pension Management & Asset Investment Review Commission, *Final Report and Recommendations*, December 13, 2018, p. 106, http://jsg.legis.state.pa.us/resources/documents/ftp/act5/pdf/PPMAIRC-FINAL.pdf (last accessed on February 12, 2019).

[139] For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation's blog, "Study Examines Pension Investment Costs," January 11, 2019, https://www.civicfed.org/iifs/blog/study-examines-public-pension-investment-costs (last accessed on February 12, 2019).

[140] Communication between the Civic Federation and the Teachers' Retirement System, January 3, 2019.

[141] Pew Charitable Trusts, *State Public Pension Funds Increase Use of Complex Investments: Heavier reliance on alternatives yields mixed results, highlights need for increased transparency*, April 2017, p. 15.

[142] Teachers' Retirement System of the State of Illinois, FY2017 Comprehensive Annual Financial Report, p. 64.

[143] Civic Federation calculations based on Center for Retirement Research at Boston College, Center for State and Local Government Excellence and National Association of State Retirement Administrators, Public Plans Data, https://publicplansdata.org/public-plans-database/browse-data/ (last accessed on February 12, 2019).

[144] Teachers' Retirement System of the State of Illinois, *TRS Investment Strategy During Stock Market Fluctuations*, https://www.trsil.org/news-and-events/pension-issues/trs-investment-strategy-during-stock-market-fluctuations (last accessed on February 12, 2019).

Employees' Retirement System, whose assets are managed by the Illinois State Board of Investment, has 65.9% of its total portfolio in index-type investments.[145] In 2016 the Board of Investment revised its investment strategy to focus on indexing and reduce its exposure to hedge funds.

High investment expense can be justified if it consistently results in a higher return. However, the Pennsylvania study concluded after subtracting fees and adjusting for the risk of various asset classes that low-cost investments usually outperform most managers.[146]

Although investment costs are important, neither increasing investment returns nor reducing investment costs will solve Illinois' staggering pension problems. Between FY2008 and FY2018, contributions to TRS have been $19.1 billion below the amount needed just to keep the system's unfunded liability from growing.[147] Under Illinois law, the State's FY2020 contribution to TRS is $4.8 billion; according to the fund's actuaries, full funding—including paying down the unfunded liability—would be 63.7% higher at $7.9 billion.[148]

Nevertheless, it is crucial that the State's pension funds be managed as efficiently and effectively as possible. While the recent change in reporting by TRS is a step in the right direction, the public would benefit from uniform, comprehensive and transparent reporting of fees across all systems. Moreover, a systematic examination of asset allocation, investment approach and manager selection, such as the study performed in Pennsylvania, would help ensure that investment expenses are warranted.

Illinois should also follow Pennsylvania's model by providing full disclosure of the commission's activities. The website for Pennsylvania commission includes transcripts of its hearings, videos of the proceedings, presentations by witnesses and responses to data requests.[149]

<u>Civic Federation Recommendation on Pension Investment Expenses and Asset Allocation</u>
The Civic Federation recommends that the Illinois General Assembly create a commission to review the investment operations of the State's public pension funds, including investment expenses, asset allocation and investment approach, with the goal of improving fund performance and transparency.

Issue 9: Restructuring Illinois' Public University System

Illinois' nine public universities are a significant asset for residents and businesses, educating students to reach their full potential and providing the skilled workforce needed for a competitive and prosperous state. But Illinois has been starving its universities of current operating funding

[145] Illinois State Board of Investment, https://www.isbinvestment.com/ (last accessed on February 12, 2019).
[146] General Assembly of the Commonwealth of Pennsylvania, Public Pension Management & Asset Investment Review Commission, *Final Report and Recommendations*, December 13, 2018, p. 19.
[147]
[148] Teachers' Retirement System of the State of Illinois, *Actuarial Valuation and Review of Pension Benefits as of June 30, 2018*, January 11, 2019, p. 5.
[149] General Assembly of the Commonwealth of Pennsylvania, Joint State Government Commission, Act 5 Commission, http://jsg.legis.state.pa.us/act5.cfm (last accessed on February 12, 2019).

for years, with no apparent plan for the most effective allocation of severely limited State resources.

Since FY2002, the peak year for public university operating funding, General Funds appropriations declined from $1.5 billion to $1.1 billion in FY2019.[150] That represents a decrease of almost 27% in nominal terms, or about 48% after adjusting for inflation, but skips over the devastating impact of the State's two-year budget impasse.

Funding in FY2016 fell to about 30% of the prior year's level, appropriations for FY2017 remained in doubt until after the end of that fiscal year and Monetary Award Program (MAP) tuition grants for low income students were covered by universities. The result was dwindling financial reserves, staffing reductions and program eliminations.[151] The budget crisis has been blamed for falling enrollments, loss of faculty and declining confidence in Illinois' public university system.[152]

Like other areas of the State budget, operating funding for universities has been crowded out by pension costs, which are mainly related to Illinois' massive unfunded liability. General Funds contributions to the pension fund for university and community college employees climbed to $1.4 billion in FY2019 from $232.1 million in FY2002.[153]

As State operating funding for public universities has declined, tuitions have increased to make up the difference.[154] General Funds provided about 35% of public university revenue in FY2018, compared with 72% in FY2002; the remainder comes mainly from tuition and fees.[155] Illinois' average tuition and fees for in-state students were the fifth highest in the U.S. in the 2018-2019 school year.[156]

The share of Illinois high school graduates enrolling in four-year colleges who went to out-of-state institutions rose to 46% in the fall of 2016 from 29% in 2002.[157] In response, the Illinois General Assembly created Aim High, a merit-based scholarship program starting in FY2019 designed to reverse the flow of students to institutions outside of Illinois and to help attract qualified Illinois students who are choosing to not go to college at all.[158]

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[150] Illinois Board of Higher Education, *Fiscal Year 2020 Higher Education Budget Recommendations*, December 2018, p. 125, https://www.ibhe.org/assets/files/FY20_Budget_Book.pdf (last accessed on February 12, 2019).
[151] Illinois Board of Higher Education, *Fiscal Year 2020 Higher Education Budget Recommendations*, December 2018, pp. 24-25.
[152] Rick Seltzer, "Picking up the Pieces in Illinois," *Inside Higher Ed*, July 10, 2017.
[153] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2017*, March 2018, p. 124, http://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysMar2018.pdf (last accessed on February 12, 2019); State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018. The State also pays for health insurance for university employees and retirees.
[154] Strategy Labs at the Lumina Foundation, *Illinois Postsecondary Investments*, May 2017, p. 14.
[155] Illinois Board of Higher Education, *Fiscal Year 2020 Higher Education Budget Recommendations*, December 2018, p. 25.
[156] College Board, *Trends in College Pricing 2018*, October 16, 2018, p.15.
[157] Illinois Board of Higher Education, *IBHE Bulletin*, January 12, 2018, http://www.ibhe.org/IBHEBulletin/180112.pdf (last accessed on February 12, 2019).
[158] Public Act 100-1015, enacted on August 21, 2018.

Undergraduate enrollment across the nine universities' twelve campuses fell by 11.9% from the fall of 2008 to 2018, based on a preliminary headcount. As shown in the chart below, the enrollment trends vary significantly by institution, ranging from a decrease of 61.2% at Chicago State University to an increase of 32.7% at the University of Illinois at Chicago. The universities with the steepest enrollment declines during the two-year budget impasse included in the 2015-2018 period below had seen persistent decreases prior to that period. Undergraduate headcount continued to fall at most of the struggling schools in 2018, although Eastern Illinois reported an 8.0% increase over 2017.[159]

Fall Undergraduate Enrollment at State of Illinois Public Universities: 2008-2018*

Institution	% Change 2008-2018	% Change 2015-2018	FY2018 Fall Enrollment
U of I at Chicago	32.7%	18.3%	20,783
Governors State University	25.1%	-8.6%	3,262
U of I at Urbana/Champaign	8.0%	1.6%	33,915
Illinois State University	0.2%	-1.7%	18,107
Southern Illinois University Edwardsville	-1.3%	-8.0%	10,833
U of I at Springfield	-2.6%	-4.2%	2,814
Northeastern Illinois University	-28.9%	-21.1%	6,390
Northern Illinois University	-30.6%	-14.9%	12,788
Western Illinois University	-37.1%	-26.1%	6,754
Southern Illinois University Carbondale	-40.2%	-26.7%	9,552
Eastern Illinois University	-41.4%	-16.5%	6,012
Chicago State University	-61.2%	-41.6%	2,022
Public Universities Total	-11.9%	-7.2%	133,232

*Enrollment numbers are based on headcount. Numbers for FY2017 and FY2018 are preliminary. For data see Appendix E.

Source: Illinois Board of Higher Education.

On top of immediate concerns, demographic trends do not look bright for higher education in Illinois. After increasing for 15 years through 2013, the number of U.S. high school graduates is expected to be roughly flat until 2023, grow for three years and then decline through the early 2030s, according to a 2016 projection.[160] The projected decreases are mainly in the Midwest and Northeast, with Illinois expected to see its annual high school graduation numbers decline by 16.1% from 149,000 in 2013 to 125,000 in 2032.[161]

To address these complicated and far-reaching issues, the Civic Federation supports the creation of a bipartisan commission to study the restructuring of Illinois' public universities. The commission should focus on the allocation of State resources among the institutions and consider

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[159] Illinois Board of Higher Education, *Preliminary Fall 2018 Enrollments in Illinois Higher Education*, December 4, 2018, p. 317.
[160] Western Interstate Commission for Higher Education, *Knocking at the College Door: Projections of High School Graduates*, December 2016, p. 11.
[161] Western Interstate Commission for Higher Education, *Knocking at the College Door: Projections of High School Graduates*, December 2016, p. 28.

the elimination of duplicative higher education programs and the closure or consolidation of campuses.

A first step toward rationalizing the public university system is to put all of the institutions under the control of one governing board. Since 1996, each of Illinois' nine public universities has been governed by its own board. Before that time, the University of Illinois and Southern Illinois University had their own boards, while the other institutions were overseen by either the Board of Regents or the Board of Governors of State Colleges and Universities.

Supporters of the 1996 reorganization maintained that separate boards would save money and reduce layers of bureaucracy.[162] But education experts believe that the current governance structure has weakened the influence of the Board of Higher Education, making it more difficult to establish statewide goals and allocate resources strategically. In a 2017 report, the Lumina Foundation concluded that the current structure essentially created an environment in which universities compete against each other for resources.[163] The structure has led to limited accountability and lack of coordination among campuses, according to higher education stakeholders cited in the report.[164]

There is currently no rational system for the distribution of State funds to the nine universities and 12 campuses. Institutions have recently received similar increases or decreases in funding from a baseline that may be outdated due to enrollment trends and other issues. In FY2020 the Board of Higher Education requested that General Funds appropriations for public universities be increased by $110.3 million to $1.2 billion, with each campus receiving about 10% more funding.[165]

The existing performance-based funding model only affects 0.5% of the State appropriation,[166] but some institutions are pushing for a funding formula that is more heavily weighted on enrollment and other performance-related factors.[167] A legislative working group reportedly has been studying changes in the way funds are allocated to state universities.[168] In response to a request from the General Assembly, the Board of Higher Education recently formed its own working group to explore the creation of a new funding formula.[169]

Civic Federation Recommendation on Restructuring Illinois' Public University System

The Civic Federation recommends that the Governor create a bipartisan commission to address the need to allocate resources more rationally among the State public universities. The commission should propose a new funding formula and consider the elimination of duplicative programs and the potential need to close or consolidate campuses. The Federation also recommends that the nine universities be governed by a single Board of

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[162] Suzy Frisch, "Edgar OKs College Board Reform, Expanded U of I," *Chicago Tribune*, March 1, 1995.
[163] Strategy Labs at the Lumina Foundation, *Illinois Postsecondary Investments*, May 2017, p. 4.
[164] Strategy Labs at the Lumina Foundation, *Illinois Postsecondary Investments*, May 2017, p. 36.
[165] Illinois Board of Higher Education, Fiscal Year 2020 Higher Education Budget Recommendations, p. 34.
[166] Illinois Board of Higher Education, *Performance Funding Overview*, https://www.ibhe.org/assets/files/Overview.pdf (last accessed on February 12, 2019).
[167] Lenore Sobota, "ISU continues push for fair higher ed funding formula," *The Pantagraph*, November 25, 2018.
[168] Ryan Denham, "Brady's Higher Ed Working Group Pivots to New Funding Formula," *WGLT*, August 28, 2018.
[169] Illinois Board of Higher Education, Fiscal Year 2020 Higher Education Budget Recommendations, p. 104.

Trustees to facilitate the establishment of statewide goals and rational allocation of State resources.

Issue 10: Prisons

Throughout the United States there is a bipartisan consensus that too many people are incarcerated.[170] The concerns focus on the impact on inmates' families and communities, the loss of productive human potential, racial inequities and high financial cost. Despite recent reductions, Illinois still holds over 40,000 adults[171] in its prison system, with significant fiscal impact.

Illinois spends an estimated $22,000 in operational expenses to incarcerate one person for a year.[172] This figure rises to $37,000 when accounting for capital costs and employee benefits, including pensions. The total annual General Funds expenditure for the Illinois Department of Corrections (IDOC) is over $1.4 billion, most of which is for the operation of prison facilities.[173]

Illinois' adult prison population grew dramatically in the 1980s and 1990s due to several factors, including an increase in the crime rate (especially for violent crime), increased arrests for both violent and non-violent crime (especially drug offenses), increased length of stay due to longer sentences, and increased recidivism.[174] The prison population peaked at 49,401 in February 2013.[175]

Since 2013, however, the prison population declined to 40,721 in August 2018, the lowest level since 1997.[176] However, the population is still high by historical standards.[177] Admissions have been declining since the mid-2000s, with the biggest drop in new criminal convictions, as opposed to parole violations or new crimes committed while on mandatory supervised release or parole. Researchers attribute the decline to decreased crime rates and reduced enforcement of property and drug crimes,[178] especially a decline in drug arrests by the Chicago Police

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170 John Wagner, "Trump signs bipartisan criminal justice bill amid partisan rancor over stopgap spending measure," *Washington Post*, December 21, 2018.

171 Illinois Department of Corrections, Quarterly Report, October 1, 2018, Table 1.

172 Illinois State Commission on Criminal Justice and Sentencing Reform, *Final Report*, December 2016, p. 15, http://www.icjia.org/cjreform2015/pdf/CJSR_Final_Report_Dec_2016.pdf (last accessed on February 12, 2019).

173 Illinois State FY2019 Budget, pp. 78, 275. This figure does not include expenses for IDOC employee healthcare or pensions.

174 Loyola University Center for Criminal Justice Research, Policy & Practice, "The Rise (and Partial Fall) of Illinois' Prison Population," June 2018, pp. 2-3, https://www.luc.edu/media/lucedu/criminaljustice/pdfs/prisonpopulationgrowthbulletinjune20183.pdf (last accessed on February 12, 2019).

175 Illinois Department of Corrections, Fact Sheet, "Adult Inmate Population on June 30, 2018," https://www2.illinois.gov/idoc/reportsandstatistics/Documents/Department_Data_FY2018.pdf (Last accessed on February 12, 2019).

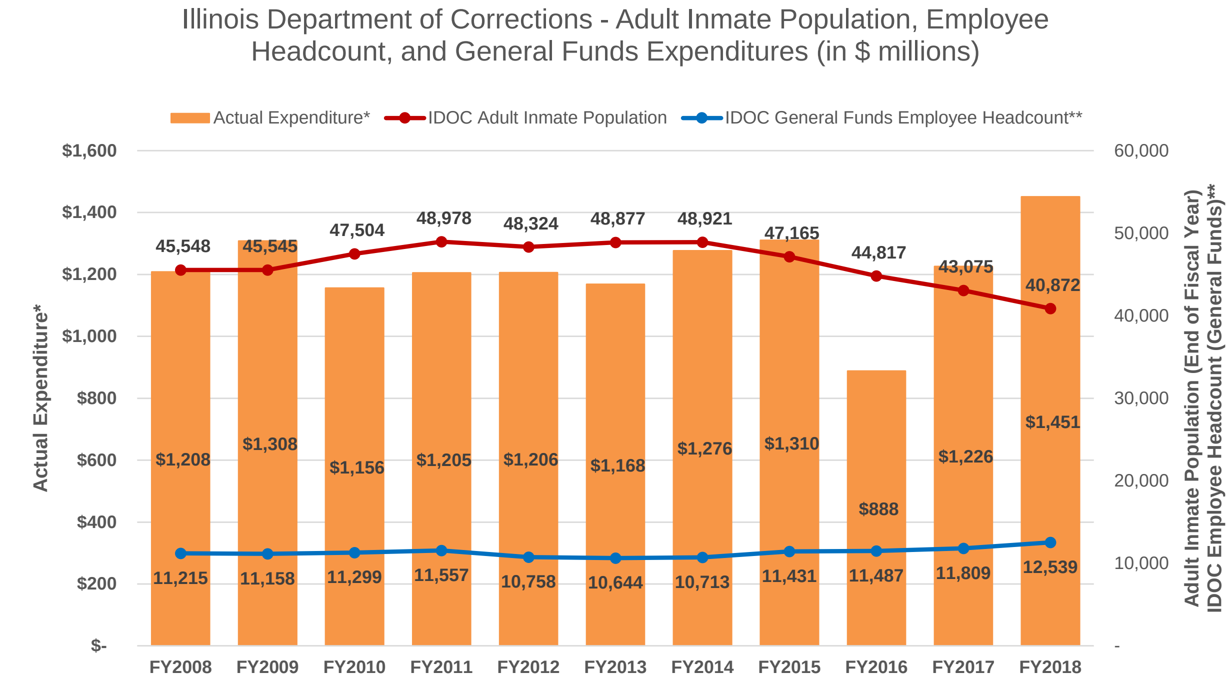
176 Illinois Department of Corrections, Quarterly Report, October 1, 2018, Table 1; Illinois Department of Corrections, Fact Sheet, "Adult Inmate Population on Jun 30, 2018."

177 Loyola University Center for Criminal Justice Research, Policy & Practice, "The Rise (and Partial Fall) of Illinois' Prison Population," June 2018, p. 1.

178 Loyola University Center for Criminal Justice Research, Policy & Practice, "The Rise (and Partial Fall) of Illinois' Prison Population," June 2018, p. 5.

Department.[179] Recidivism has fallen, which may also be due to less drug enforcement.[180] Very little of the reduction has been due to fewer people in prison for violent crimes.[181]

Despite the recent decline in prison population, Illinois' General Funds expenditures on IDOC have continued to rise, with the exception of the two years in which the State had no complete budget. Moreover, employee headcount has continued to rise as well. The following chart shows adult inmate population, General Funds expenditures and employee headcount for IDOC since 2008.



*FY2018 Actual Expenditures are Estimated.
**FY2008-2010 Headcount figures are for All Funds. Subsequent years are General Funds only.
Source: Illinois Department of Corrections, Adult Inmate Population on June 30, 2018, illinois.gov/idoc/reportsandstatistics/Documents/Department_Data_FY2018.pdf; Illinois State FY2019 Budget, pp. 78, 274-75; Illinois State FY2018 Budget, pp. 93, 293; Illinois State FY2017 Budget, pp. 91, 300-01; Illinois State FY2016 Budget, pp. 3-21, 6-102, 6-103; Illinois State FY2015 Budget, pp. 2-35, 6-107; Illinois State FY2014 Budget, pp. 2-29, 6-96; Illinois State FY2013 Budget, pp. 2-31, 5-90; Illinois State FY2012 Budget, pp. 8-2, 8-4; Illinois State FY2011 Budget, pp. 7-3, 7-5; Illinois State FY2010 Budget, pp. 8-0, 8-4.

Cost reductions will not be easy. Prison population declines do not always lead to immediate operational expenditure reductions due to safety and legal concerns. A minimum number of guards is needed to safely staff a given facility. A significant portion of IDOC's expenditures are fixed costs, meaning large drops in population are necessary to make major cost-saving changes, such as consolidating facilities.[182] Moreover, experts caution that more social services will be needed to address the needs of the population that would otherwise be incarcerated.[183]

[179] Illinois Department of Corrections Adult Advisory Board, Meeting Minutes, April 26, 2018, pp. 2-3.
[180] Loyola University Center for Criminal Justice Research, Policy & Practice, "The Rise (and Partial Fall) of Illinois' Prison Population," June 2018, p. 7.
[181] Loyola University Center for Criminal Justice Research, Policy & Practice, "The Rise (and Partial Fall) of Illinois' Prison Population," June 2018, p. 7.
[182] Illinois State Commission on Criminal Justice and Sentencing Reform, *Final Report*, December 2016, p. 15.
[183] Illinois State Commission on Criminal Justice and Sentencing Reform, *Final Report*, December 2016, p. 19.

Finally, a pending consent decree involving prison healthcare is likely to add to State costs.[184] In January 2019 Illinois agreed to settle a long-running lawsuit alleging that it provided substandard care to inmates with serious medical and dental needs.[185] The agreement, which must be approved by a federal judge, requires the State to provide qualified medical personnel and improved clinical facilities and to implement an electronic medical records system. A court-approved monitor will oversee the changes.

Soon after taking office in 2015, then Governor Rauner formed a bipartisan commission to find ways to safely reduce Illinois' adult prison population by 25%—from 48,278 to 36,209—by 2025.[186] The Illinois State Commission on Criminal Justice and Sentencing Reform issued 27 recommendations in 2017; as of mid-November 2018, six had been adopted through changes in policy or state law and work had begun to implement 13 other recommendations.[187] Lawmakers have not acted on the more controversial proposals, such as lowering sentences for felonies and drug crimes and raising the threshold for shoplifting to be considered a felony.[188] Advocates said it was too early to determine the effectiveness of the measures that had been adopted, including laws to provide Illinois ID cards to inmates leaving prison[189] and give prisoners more ways to reduce their sentences by earning credits for good behavior or participating in programs.[190]

The Rauner administration also started two IDOC facilities dedicated to job retraining programs for offenders about to reenter society.[191] The facilities' goal is to reduce recidivism and thereby lower the prison population further.

Governor Pritzker, who took office in January 2019, has said his priority is reducing recidivism by focusing on rehabilitation programs for inmates and re-entry services including employment assistance for individuals returning to the community.[192] On February 11, 2019, the new Governor create an office of Criminal Justice Reform and Economic Opportunity headed by Lieutenant Governor Juliana Stratton to centralize the State's criminal justice efforts.[193]

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[184] State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 9.
[185] Consent Decree, Lippert v. Baldwin, (Case No. 10-cv-4603, N.D. Ill.), *pending judicial approval*.
[186] Illinois State Commission on Criminal Justice and Sentencing Reform, *Final Report*, December 2016, p. 15.
[187] Illinois Sentencing Policy Advisory Council, *Commission Recommendations Implementation As of November 14, 2018*, http://www.icjia.state.il.us/spac/pdf/Commission_Recommendation_111418.pdf (last accessed on February 12, 2019).
[188] Edith Brady-Lunny, Pritzker moves criminal justice reform under one roof," *The Pantagraph*, December 23, 2018.
[189] Public Act 99-0907, enacted on December 15, 2016.
[190] Public Act 100-0576, enacted on January 8, 2018.
[191] Miles Bryan, "Illinois Inmates Hope To Get Into This Prison," *WBEZ*, May 7, 2018.
[192] JB Pritzker Campaign for Illinois Governor, Issue webpage: *Criminal Justice Reform Plan*, https://www.jbpritzker.com/criminal-justice/ (last accessed on February 12, 2019).
[193] State of Illinois, Executive Order 2019-09 Creating the Justice Equity, and Opportunity Initiative, February 11, 2019, https://www2.illinois.gov/IISNews/19703-Executive_Order_2019-9.pdf (February 12, 2019).

The Civic Federation Recommendation on Prisons

The Civic Federation recommends that the Governor and General Assembly continue to implement reforms designed to lower Illinois' prison population, not only to achieve widely acknowledged social benefits, but also with the goal of safely and legally generating meaningful cost reductions.

Issue 11: Interest Penalties on Overdue Bills

For decades, many states and the federal government have had laws requiring payment of interest penalties on late bills to private vendors.[194] The laws are designed to encourage timely payment for goods and services and discourage bureaucratic delays.

This system has backfired in Illinois due to the State's practice of deferring bills to manage its budget deficits. The bill backlog peaked at $16.7 billion on November 8, 2017, following two years without a complete budget.[195] At that point, the State cleared out a significant portion of the unpaid bills using the proceeds of a $6 billion sale of General Obligation bonds. The bond sale made financial sense because the State's coupon rate of 3.5% on the bonds was far below the steep interest penalties it pays on many overdue bills.[196]

Under the State Prompt Payment Act, interest accrues at 1% a month, or 12% annually, on proper bills that are not paid within 90 days.[197] Other claims, including those from healthcare providers, accrue interest at 9% a year after 30 days under the timely payment provisions of the Illinois Insurance Code.[198] The situation has turned into a business opportunity for lenders participating in the State's Vendor Payment Program, who can pay vendors upfront in exchange for the right to collect the interest penalties when the bills are finally paid.[199]

During the budget impasse, the State accrued $1.1 billion in late-payment interest penalties, according to the Illinois Comptroller's Office.[200] More than $711 million in penalties were reportedly paid out in calendar year 2018, with $450 million owed as of December 31, 2018.[201]

Prompt payment penalty interest rates paid by different governments vary widely, but Illinois' rates appear to be excessive. The federal government's penalty rate is currently 3.625%, compounded monthly.[202] Texas pays one percentage point over the prime lending rate, which is

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[194] U.S. General Accounting Office, Prompt Payment: State Laws are Similar to the Federal Act but Less Comprehensive, March 1989.
[195] State of Illinois Comptroller, *Backlog Voucher Report*.
[196] Certain payables, such as transfers to local governments and other State funds, are not eligible for penalty interest.
[197] 30 ILCS 540. Proper bills are defined as those that include the information needed to process the payment.
[198] 215 ILCS 5/368(a).
[199] Illinois Department of Central Management Services, *Vendor Payment Program*, https://www2.illinois.gov/cms/About/VendorPayment/Pages/default.aspx (last accessed on February 12, 2019).
[200] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 4.
[201] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 4.
[202] U.S. Department of the Treasury, Bureau of the Fiscal Service, *Prompt Payment*, https://www.fiscal.treasury.gov/fsservices/gov/pmt/promptPayment/rates.htm (last accessed on February 12, 2019). The rate is adjusted every six months.

currently 5.0%;[203] and Missouri pays three percentage points over the prime rate.[204] Michigan's rate is 0.75% per month.[205]

The Civic Federation hopes that the State of Illinois will implement a comprehensive plan to stabilize its finances and never again allow its bill backlog to grow to such a level that penalty interest payments become a significant financial liability. However, the rates should still be reduced to reflect lower economy-wide rates of return.

The previous gubernatorial administration proposed reducing Illinois' prompt payment penalty rate on future bills from 12% annually to the five-year U.S. Treasury yield curve rate plus one percentage point.[206] As of February 8, 2018, this penalty rate would have been 3.46%.[207]

The State pays between 3.59% and 3.78% so far in the State Treasurer's new program to invest in backlogged bills.[208] This program is intended to pay off pending bills and avoid high interest penalties. However, the program cannot address all interest penalties being paid on the backlog because the Treasurer is limited to $2 billion in investments in State bills.

Civic Federation Recommendation on Interest Penalties on Overdue Bills

The Civic Federation recommends that the State reduce the late payment penalty in the Prompt Payment Act to a rate that reflects lower economy-wide rates of return, such as the five-year Treasury rate plus one percentage point. The General Assembly and Governor should also consider a reduction in the timely payment rate in the Insurance Code.

Issue 12: Consolidating and Streamlining Government Units in Illinois

The State of Illinois has by far the highest number of local governments in any state, at 6,963, according to the United States Census Bureau.[209] The multiplicity of local units of government, many of which are funded predominantly by property taxes, is often cited as a reason for high property tax rates in Illinois.[210]

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203 Texas Comptroller of Public Accounts, *State Payee Payment Resources*, https://fmx.cpa.texas.gov/fmx/payment/resources/state.php (last accessed on February 12, 2019).

204 Missouri Revised Statutes, Title IV, Section 34.055, http://revisor.mo.gov/main/OneSection.aspx?section=34.055&bid=904&hl (last accessed on February 12, 2019).

205 Michigan Compiled Laws, Chapter 17, Section 17.54, http://www.legislature.mi.gov/(S(bojsotpql3vshfyaytl213nn))/mileg.aspx?page=getObject&objectName=mcl-17-54 (last accessed on February 12, 2019).

206 State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, October 12, 2017, p.14; Illinois State FY2016 Budget, p. 2-19.

207 U.S. Department of the Treasury, *Daily Yield Curve Rates*, https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield (last accessed on February 12, 2019).

208 Illinois State Treasurer, *Investing to Reduce Illinois' Backlog*, https://stories.opengov.com/illinoistreasurer/published/95gvCe0XZ (last accessed on February 2, 2019).

209 United States Census Bureau 2012 Census of Governments, "Government Organization Summary Report: 2012," September 26, 2013, p. 1.

210 Illinois ranked seventh among the states in per capita property taxes collected in 2013 and was the highest ranking state in the Midwest. For more information, see Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois' National Rankings – 2016 Update*, November 2016, p. 30.

In addition to recommending the merger of the Chicago Teachers' Pension Fund with the Teachers' Retirement System, the Civic Federation supports the following government consolidation initiatives:[211]

- Consolidate local pension funds: There are over 600 local pension funds in the State, each with its own governing board, most of which are police and fire funds for individual municipalities. While these funds may enjoy local control over investing and disability decisions, the Federation believes that overall investment performance and administrative efficiency generated by economies of scale would greatly improve if funds were consolidated. Following consolidation, the State should review investment management and allocation with the goal of improving efficiency and performance, as discussed on p. 38 of this report. On February 11, 2019, Governor Pritzker announced the creation of a task force to consider pension consolidation, beginning with local police and fire funds.[212]

- Merge the offices of the Illinois Comptroller and Treasurer: The Illinois Constitution currently divides the State's main fiscal operations between two offices: the Illinois Treasurer is responsible for collecting and investing state revenue while the Illinois Comptroller is responsible for paying bills from those accounts.[213] Several states have already combined those operations for greater efficiency including Wisconsin, Michigan and Minnesota. The Civic Federation supports an amendment to the Illinois Constitution to merge the offices of the Illinois Comptroller and Treasurer.

- Authorize any township to be dissolved by referendum: The Illinois Constitution appears to permit dissolution of townships by referendum.[214] However, because of confusion surrounding procedures, past efforts have been difficult or delayed. Public Act 100-107, signed into law in 2017, clarified various rules with regard to township consolidation, including authorizing dissolution of coterminous townships by referendum. While this is an important first step, the Civic Federation sees no good public policy reason why the intent of the Illinois Constitution should not be reflected in Illinois law. As such, the Federation encourages the Illinois General Assembly to pass legislation to authorize dissolution of *any* township via referendum.

- Consolidate property tax administration roles in Cook County: Administration of the Cook County property tax function is primarily handled by three different elected county officials (Assessor, Clerk and Treasurer), leading to taxpayer confusion about whom to contact with questions or complaints about the tax. The lines of responsibility are nearly impossible for ordinary taxpayers to discern and politicians exploit this fact to their political advantage. Building on the eventual consolidation of the offices of the Cook

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[211] For more information on these proposals, see Civic Federation, *The Civic Federation 2019 Legislative Priorities: 101st General Assembly of the State of Illinois*, November 8, 2018, https://www.civicfed.org/2019priorities (last accessed on February 6, 2019).
[212] Greg Hinz, "Pritzker offers hints of how to fill pension hole," *Crain's Chicago Business*, February 12, 2019.
[213] Illinois Constitution. Art. V, Sec. 1-18.
[214] Illinois Constitution, Art. VII, Sec. 5.

County Recorder of Deeds and the Cook County Clerk before December 2020,[215] the Civic Federation recommends that a unified property tax administration office be created. The new office would merge the Treasurer's office; the County Clerk's tax extension, tax redemption and map divisions; the part of the current-Recorder's office dealing with property records; and the Auditor's property functions. It would be an appointed rather than an elected office. Other states have moved to allow for consolidation of property tax administration roles. Minnesota state law allows its counties' Auditor and Treasurer positions to be combined and made either an appointed or elected position.[216] However, according to an opinion of the Cook County State's Attorney's Office, creating a unified Office of Property Tax Administration would require legislation be passed by the Illinois General Assembly and could not be done solely via County referendum or administratively.[217]

- <u>Dissolve the Illinois International Port District</u>: The Illinois International Port District should be dissolved because the District is failing to fulfill its principal mission of promoting shipping and port operations and is instead focused on its Harborside International Golf Center. In July 2013, Mayor Emanuel announced plans to privatize the Port District. Following the announcement, the only potential bidder withdrew from negotiations in October 2013. In November 2017, the Illinois General Assembly agreed to forgive a $15 million loan that had been outstanding since 1980.[218] In late 2018, the district renewed its search for a private manager by issuing a request for proposal.[219]

  Although the Port District is not permitted to levy taxes, taxpayers have a vital interest in the port's effective management because of its potential impact on regional economic growth. The Civic Federation is encouraged that the District has become more focused on port operations, won support from government agencies and non-profit organizations and received funding for needed repairs. Despite these recent improvements, the Civic Federation continues to support a change in State law to dissolve the Illinois International Port District and put the City of Chicago in control of port operations. In the meantime, while the Chicago Metropolitan Agency for Planning oversees the creation of a comprehensive master plan, the Federation recommends that the port district confine itself to its core mission of developing port facilities and resume the search for a private port operator.

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[215] For more information, please see Civic Federation blog post, Cook County Electorate Approves Ballot Measure to Merge Recorder of Deeds and County Clerk: https://www.civicfed.org/civic-federation/blog/cook-county-electorate-approves-ballot-measure-merge-recorder-deeds-and-county (last accessed on February 12, 2018).
[216] If the position is made appointed, a referendum must be held. Minnesota House of Representatives Research Department, "County Offices: Combining or Making Appointed," November 2011.
[217] Office of Tax Administration Report, Prepared by Representatives of the County Board President, Cook County Assessor, Cook County Clerk, Cook County Treasurer and State's Attorney.
[218] The Civic Federation filed a witness slip with the Illinois Senate State Government Committee on May 18, 2017 in opposition to House Bill 1797, which authorized the loan forgiveness.
[219] Illinois International Port District Request for Proposals for: Master Lease Opportunity at the IIPD, due January 31, 2019,
https://www.iipd.com/sites/default/files/documents/IIPD%20Master%20Lease%20RFP%20%28V.11.30.18%29.pdf (last accessed on February 12, 2019).

Issue 13: Comprehensive Capital Improvement Planning and Funding

Illinois has not had a major capital program since 2009. The *Illinois Jobs Now!* FY2010 capital budget included $18.0 billion in new projects as well as $11.0 billion of reappropriations from previous years.[220] Since then, new appropriations have averaged approximately $3.8 billion annually.

The 2018 state report card issued by the American Society of Civil Engineers gives Illinois a C- for the overall quality of its infrastructure.[221] The road and transit categories each received a D. The Federal Highway Administration reports 2,303 structurally deficient bridges in Illinois, 8.6% of the State's total.[222] A recent report by the Regional Transportation Authority accuses the State of chronically underfunding transit and states that capital needs are outpacing uncertain revenues.[223]

In addition to "horizontal" transportation infrastructure, the FY2019 Capital Budget called attention to "vertical" infrastructure needs, such as modernization of the State's information technology systems and a backlog in deferred maintenance at State facilities estimated at $7.4 billion.[224] However, GOMB officials have indicated that the State has never completed a full assessment of facilities and the real number could be much higher.[225] Additionally, the State Board of Higher Education reports that the backlog of deferred maintenance at public universities has grown from $2.7 billion in FY2005 to $6.2 billion in FY2019.[226]

While the need to maintain and expand infrastructure in the State is not in doubt, Illinois must weigh these priorities against other pressing demands on its fiscal resources. In order to justify embarking on a new major capital program, the State must satisfy two requirements. The first is the development of a capital improvement plan that comprehensively assesses and prioritizes the State's needs. The Civic Federation opposed the *Illinois Jobs Now!* program and subsequent capital budgets for lack of such a plan.[227] Taxpayers deserve to understand how money will be spent before taxes or fees are raised. While horizontal infrastructure needs are better understood,

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[220] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2019*, April 2018, p. 8.
[221] American Society of Civil Engineers, Illinois Section, *Report Card for Illinois Infrastructure*, 2018, https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/FINAL-REPORT-CARD-FOR-2018-IL-Infrastucture.pdf (last accessed on February 12, 2019).
[222] Federal Highway Administration, *Deficient Bridges by Highway System 2017*, December 31, 2017, https://www.fhwa.dot.gov/bridge/nbi/no10/defbr17.cfm (last accessed on February 12, 2019).
[223] Regional Transportation Authority, "Invest in Transit: The 2018-2023 Regional Transit Strategic Plan for Chicago and Northeastern Illinois," p. 14.
[224] Illinois State FY2019 Capital Budget, pp. 21-26.
[225] Communication between the Civic Federation and the Governor's Office of Management and Budget, October 4, 2018.
[226] State of Illinois Board of Higher Education, Fiscal Year 2020 Higher Education Budget Recommendations, December 2018, p. 61.
[227] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2010 Recommended Operating and Capital Budgets, Analysis and Recommendations*, May 11, 2009, p. 5; Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Despite Operating Deficit Capital Spending Still Growing," March 17, 2010, https://civicfed.org/iifs/blog/despite-operating-deficit-capital-spending-still-growing-0 (last accessed on February 12, 2019).

the most State's most pressing task is to complete a full assessment of capital needs at its own facilities.

The second requirement is to identify reliable, long-term sources of funding. The *Illinois Jobs Now!* plan relied on a collection of revenue sources, such as video poker, leasing the state lottery, liquor taxes, vehicle license fees and expanding the sales tax on candy, sweetened beverages and some hygiene products.[228] However, few of these sources have ever produced as much revenue as was originally forecast.

Addressing Illinois' infrastructure needs will not be cheap. The Illinois Department of Transportation (IDOT) estimates that additional revenues of $1.7 billion annually are needed to keep up with maintenance of existing highway and transit infrastructure.[229] Needed improvements in these systems would cost an additional $2.25 billion each year. These figures do not include other important infrastructure, such as airports, freight rail or waterways. The Metropolitan Planning Council estimates a similar figure: $4.3 billion annually to maintain and moderately expand the State's transportation infrastructure.[230]

For decades the standard funding source for capital investments in transportation has been the motor fuel tax (MFT), but the revenue produced by this tax has eroded over time. Illinois has not raised the MFT from the flat rate of $0.19 per gallon in over 29 years.[231] Since that time, construction costs have doubled while gas tax revenue has grown by only 20%.[232]

Illinois has made the pain of raising the MFT more difficult by being one of only a few states that also assess a general sales tax on gasoline.[233] However, the revenue produced by the sales tax is not tied to transportation funding. The FY2018 budget also eliminated a 20% sales tax discount on gasoline blended with ethanol,[234] which includes most gasoline sold in the Midwest.[235] The elimination of the discount, which the Civic Federation advocated,[236] is expected to produce approximately $100 million for the State's General Funds.[237]

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[228] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2018*, April 2017, p. 9.
[229] Communication between the Civic Federation and the Illinois Department of Transportation, December 1, 2017.
[230] Metropolitan Planning Council, "Transportation," http://www.metroplanning.org/transportation, (last accessed on February 12, 2019).
[231] 35 ILCS 505/2(a).
[232] Chicago Metropolitan Agency for Planning, "Adequate Transportation Funding: Reforming the Motor Fuel Tax," p. 3, http://www.cmap.illinois.gov/documents/10180/17016/FY15-0061+ADEQUATE+TRANSPORTATION+FUNDING.pdf/60dc6491-b463-436c-b877-ac82e54f0ce3, (last accessed on February 12, 2019).
[233] National Conference of State Legislatures, "Motor Fuel Sales Taxes and Other Taxes on Fuel Distributors or Suppliers," Updated June 2012, http://www.ncsl.org/research/transportation/fuel-sales-taxes-and-other-related-taxes.aspx (last accessed on February 12, 2019).
[234] 35 ILCS 105/3-10.
[235] U.S. Energy Information Administration, "Frequently Asked Questions: How much ethanol is in gasoline, and how does it affect fuel economy?" March 29, 2017, https://www.eia.gov/tools/faqs/faq.php?id=27&t=4 (last accessed on February 12, 2019).
[236] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2018 Budget Roadmap*, February 10, 2017, p. 42.
[237] Illinois General Assembly, Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary, Fiscal Year 2018*, Updated September 5, 2017, p. 29.

In addition to the State sales tax, Chicago-area drivers pay more for special reformulated gasoline required by the Environmental Protection Agency.[238] The metro area is in "non-attainment status" due to poor air quality.[239] Even with these high costs, further raising the MFT could encourage alternatives to driving and help improve Chicago air quality.

Despite the relative stability of the MFT, transportation experts have concerns about its long-term viability. Average fuel efficiency has risen and is expected to continue rising.[240] Transportation planners have recommended examining both congestion pricing and a vehicle miles traveled (VMT) tax, which would assess drivers based on the distance they drive, ensuring the reliability of revenues even as cars become more fuel efficient.[241] A number of other states are testing VMT pilot programs to assess the feasibility of implementation and address the privacy concerns inherent in tracking vehicles.[242]

Identifying funding for non-transportation infrastructure could be more difficult. In November 2016 voters approved a lockbox amendment to the Illinois Constitution that restricts some transportation-derived revenue sources to transportation-related expenditures.[243] The Build Illinois Bonds program is supported by sales taxes and the various revenues included in the *Illinois Jobs Now!* plan.[244] However, these revenues may need to be increased or augmented with other sources in order to address the full extent of the State's infrastructure needs.

The Civic Federation Recommendation on Planning and Funding Capital Infrastructure

The Civic Federation recommends that the before State of Illinois embarks on a new capital plan, it should comprehensively assess and prioritize its needs for both transportation infrastructure and State facilities. In addition, the State should identify reliable, long-term funding sources. The road and transit portion of the plan should be initially funded by an increase in the motor fuel tax, which has not been raised since 1990. The State should further consider vehicle miles traveled and congestion taxes to ensure the long-term sustainability of transportation funding revenues. The State facilities portion of the plan will require other sources of funding, and these must be more reliable than those used for the FY2010 *Illinois Jobs Now!* capital plan.

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[238] Whet Moser, "Why Gas Is So Expensive During the Summer (And Especially in Chicago)," *Chicago Magazine*, March 27, 2012.

[239] U.S. Environmental Protection Agency, "Illinois Nonattainment/Maintenance Status for Each County by Year for All Criteria Pollutants," January 31, 2019, https://www3.epa.gov/airquality/greenbook/anayo_il.html (last accessed on February 12, 2019).

[240] U.S. Bureau of Transportation Statistics, "Table 4-23M: Average Fuel Efficiency of U.S. Light Duty Vehicles," https://www.bts.gov/archive/publications/national_transportation_statistics/table_04_23_m (last accessed on February 12, 2019).

[241] Chicago Metropolitan Agency for Planning, "Transportation System Funding Concepts," August 2016, p. 5, http://www.cmap.illinois.gov/documents/10180/570463/Transportation+System+Funding+Concepts/a40cfa4a-4743-4cfb-83c3-44f1d1d0ef02 (last accessed on February 12, 2019).

[242] Daniel Vock, "With Gas Taxes in Peril, More States Study Alternatives," *Governing*, January 16, 2018.

[243] Rummana Hussain, "Illinois voters approve 'Safe Roads Amendment'," *Chicago Sun-Times*¸ November 8, 2016.

[244] State of Illinois, Build Illinois Bonds, Junior Obligation Series of October 2018, *Official Statement*, October 16, 2018, pp.9-10.

Issue 14: Prudent Budget Practices

With the beginning of a new gubernatorial administration and many first-time lawmakers in Springfield, the Civic Federation believes it is important to warn against certain unwise budgetary practices that have been used in the past and imprudent steps that might be under consideration for the future.

Illusory Revenues or Savings and Accounting Gimmicks

Over the years, Illinois has used many maneuvers to make its budget appear balanced.[245] The most significant is the State's approach to pension funding, which has been inadequate for decades despite the adoption in 1994 of an actuarially-based funding plan.[246] The following are some of the ill-advised budgetary items and techniques that have been proposed or adopted more recently:

- Budget plugs: To close a $4.6 billion budget gap, former Governor Rauner's recommended budget for FY2018 proposed "working together on a 'grand bargain.'"[247] There was no detailed plan for aligning revenues and expenditures, and the grand bargain did not come to pass.
- Speculative pension savings: The FY2019 budget has $445 million in pension savings, mainly from buyout plans that were not reviewed by actuaries and have not yet been fully implemented. A Tier 3 pension plan for new workers, budgeted to save $500 million in FY2018, has still not been put into effect. Former Governor Rauner's budget proposal for FY2016 included $2.2 billion in savings from pension changes that had not been passed by the General Assembly or vetted by any court. That plan was not adopted.
- Deferring pension costs: Facing a $1 billion jump in total pension contributions in FY2018, the State adopted a plan to smooth required pension payments by spreading out the impact of changes in actuarial assumptions. Smoothing reduces State costs in the near-term but increases costs over time.
- Asset sales to support operating expenses: One-time revenues such as proceeds from asset sales should not be used to pay for annual operating expenses because they are not part of the State's ongoing tax base and are not available for spending in subsequent years. The sale of the James R. Thompson Center was included in the enacted budget in FY2018 and was again part of the FY2019 budget, where it was credited with net proceeds after expenses of $270 million. It was eliminated from the Rauner administration's five-year budget projection in November 2018 after legislation facilitating the sale was passed by the General Assembly in 2017 but was never presented to Governor Rauner for his signature. The bill was sent to Governor Pritzker on February 7, 2019,[248] but even if the measure is enacted the timing and price of any sale remain uncertain.
- Underfunding group health insurance: Hoping to win concessions from the State's largest labor union, former Governor Rauner proposed General Funds savings from employee

[245] State of Illinois Comptroller, "The State Fiscal Crisis-How Did We Get Here?" *Fiscal Focus*, September 2011.
[246] Public Act 88-0593, enacted on August 22, 1994. For more information on Illinois' history of pension underfunding, see Eric M. Madiar, "Illinois Public Pension Reform: What's Past is Prologue," *Illinois Public Employee Relations Review*, Vol. 31, Issue 3, Summer 2014.
[247] Illinois State FY2018 Budget, p. 78.
[248] 100th Illinois General Assembly, Senate Bill 886, filed on February 7, 2017.

group health insurance ranging from 24% to 35% in each of his four recommended budgets. The negotiations have not been successful and the savings did not materialize. However, the State had begun to underfund group health insurance years earlier as a way to balance the budget, resulting in the accumulation of unpaid bills. State law allows group health insurance costs to be incurred in a given year but not appropriated until subsequent years.[249]

Pension Funding Target

When pension costs consume about one quarter of a state's own revenue, as they do in Illinois, it is tempting to seek easy fixes to reduce budgetary pressures.[250] One such idea involves lowering the State's pension funding target—its goal for the percentage of pension obligations covered by pension assets. Lowering the target reduces required state pension contributions, leaving more funds available for education, human services and other needs.

But public finance experts and public pension actuaries are adamant that the funding target should be 100%.[251] The reason is simple: anything less is too risky for taxpayers and pension beneficiaries. With only about 26% of their assets in fixed-income assets,[252] public pension funds have volatile investment returns and can expect to lose a substantial portion of their asset value in an economic downturn. If the pre-recession funding level is too low, restoring adequate funding will require huge increases in contributions that might not be sustainable.

Illinois' existing pension funding plan already falls short of the 100% goal. The 50-year plan, which began in FY1996, requires 90% funding by FY2045. Under a pension reform law enacted in 2013, the State would have moved to an actuarially sound 30-year funding plan and made supplemental contributions to achieve 100% funding even sooner.[253] However, these provisions were overturned when the pension reform law was ruled unconstitutional in its entirety by the Illinois Supreme Court in 2015.[254]

As of the end of FY2018, the five retirement systems had an unfunded liability of $133.7 billion and a combined funded ratio of 40.1%.[255] To improve the funds' financial condition, the State

[249] 30 ILCS 105/25 (b-7).
[250] For more information on Illinois' pension costs as a share of State-source revenue, see p. 9 of this report.
[251] Government Finance Officers Association, *Best Practice: Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)*, January 2016, https://www.gfoa.org/sustainable-funding-practices-defined-benefit-pensions-and-other-postemployment-benefits-opeb (last accessed on February 12, 2019); American Academy of Actuaries, *The 80 Percent Pension Funding Myth*, April 2014, http://www.actuary.org/files/Pension%20Funding.pdf (last accessed on February 12, 2019); Society of Actuaries, *Report of the Blue Ribbon Panel on Public Pension Plan Funding*, February 2014, p. 6, https://www.soa.org/Files/Newsroom/brp-report.pdf (last accessed on February 12, 2019).
[252] The Pew Charitable Trusts, *State Public Pension Funds' Investment Practices and Performance: 2016 Data Update*, September 2018, p. 3.
[253] Public Act 98-0599, enacted on December 5, 2013.
[254] The Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf (last accessed on February 12, 2019).
[255] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Special Pension Briefing," *Monthly Briefing for the Month Ended: November 2018*, p. 2. These figures are based on asset smoothing. Based on the market value of assets, the unfunded liability was $133.5 billion and the combined funded ratio was 40.2%.

Actuary has consistently recommended a funding target of 100%.[256] The current target "produces a contribution that results in a significant increase in the unfunded actuarial liabilities over the next decade if all assumptions are met," according to the State Actuary's latest report.[257]

Level Principal Debt Repayment

Illinois' capital bonds are issued on a level-principal repayment schedule.[258] This results in declining year-on-year debt service and saves on interest expense. Another common structure used by states and municipalities is level debt service, in which the total of principal and interest is the same each year for the life of the bonds. Because principal is paid off more slowly, level debt service repayment is more expensive than level principal. For a $100 million bond series paying 5% over twenty years the total interest on a level debt service structure is nearly $8 million higher than on a level-principal structure. That Illinois has maintained the less costly structure for its capital borrowing is to its credit, and the State think carefully before discarding it.

Notably, the State deviated from the level debt service when it issued back-loaded pension obligation bonds in FY2003 and FY2011. Back-loaded bonds, in which total debt service rises over time, are the most expensive structure of repayment. Illinois should refrain from issuing any additional back-loaded debt.

Implementation of New Revenue Sources

Several new revenue sources have been discussed to help address Illinois' fiscal challenges. **The Civic Federation does not have a position for or against the legalization of marijuana or sports gambling or the enactment of a graduated income tax**. However, if the State chooses to pursue any of these revenue sources, the Civic Federation offers the following cautions.

Recreational Marijuana Tax

After legalizing the sale and use of medical marijuana in 2013, Illinois is now debating whether to join ten states and Washington, D.C. in legalizing cannabis for recreational use.[259] Governor Pritzker has endorsed legalization,[260] and a 2017 survey by the Paul Simon Public Policy Institute at Southern Illinois University found that 66% of Illinoisans favored legalization and

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[256] State of Illinois, Office of the Auditor General, *State Actuary's Report*, December 2018, p. 2, https://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2018-State-Actuary-Rpt-Full.pdf (last accessed on February 12, 2019), p. 2.
[257] State of Illinois, Office of the Auditor General, *State Actuary's Report*, December 2018, p. 13.
[258] General Obligation Bond Act, 30 ILCS 330/9; Build Illinois Bond Act, 30 ILCS 425/6.
[259] For a thorough analysis of the issues involved in legalizing the recreational use of marijuana, see Citizens Research Council of Michigan, *Statewide Ballot Proposal 2018-1 – Marijuana Legalization*, October 2018, https://crcmich.org/PUBLICAT/2010s/2018/memo1152-marijuana_legalization.pdf (last accessed on February 12, 2019).
[260] JB Pritzker Campaign for Illinois Governor, Issue webpage: *Legalizing Marijuana*, https://www.jbpritzker.com/marijuana/ (last accessed on February 12, 2019).

taxation of cannabis.[261] It is likely that the legalization of recreational marijuana will be considered by the Illinois General Assembly in 2019.[262]

A recent study from the Illinois Economic Policy Institute estimated that the market for legal cannabis in Illinois could be as much as $1.6 billion by 2020.[263] Estimates of the potential revenue that could be generated by taxes on legal marijuana vary from $350 million to $700 million.[264]

The Civic Federation urges the Governor and General Assembly to be cautious about budgeting revenues from taxation of recreational marijuana. Despite the experience of other states, it is difficult to predict how much revenue will be generated in the first few years of legal sales. There are also uncertainties about the length of time required to establish regulatory and taxation structures. Moreover, a portion of the revenues should be used to pay for regulating legalized marijuana and addressing the social costs of drug use.

Until recreational cannabis becomes a more reliable source of revenue, marijuana taxes should not be used to balance the budget or fund capital borrowing. Instead, they should be designated for one-time expenses, such as paying down the State's backlog of unpaid bills.

Sports Gambling

The Civic Federation has similar concerns about revenues from the legalization of sports gambling as it does for marijuana. One estimate claims that legalization could produce $100 million for the State.[265] However, State leaders should be cautious about counting on these revenues. Illinois' legalization of video gaming was supposed to support the FY2010 capital plan, but administrative delays and the ability of some municipalities to opt out of legalization meant that revenues lagged projections for the first seven years of the program.[266] The State could experience similar challenges implementing sports betting. Moreover, the State should reserve a portion of the revenues to pay for gambling addiction services, as Illinois failed to do with video gaming.[267]

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[261] Southern Illinois University. "Poll: Large majority of voters back marijuana legalization, decriminalization," March 27, 2017.
[262] 101th Illinois General Assembly, House Bill 902, filed on January 28, 2019. For more information, see Dean Olsen, "State legislators lay out plans for recreational marijuana proposal," *The State Journal-Register*, January 28, 2019.
[263] Illinois Economic Policy Institute, Frank Manzo IV, Jill Manzo and Robert Bruno, *The Financial Impact of Legalizing Marijuana in Illinois*, November 9, 2018, p. 5.
[264] Tax Foundation, Joseph Bishop-Henchman and Morgan Scarboro. "Marijuana Legalization and Taxes: Lessons for Other States from Colorado and Washington," May 2016, p. 14; Jaclyn Driscoll. "Money And The Legal Weed Debate In Illinois," Northern Public Radio, March 19, 2018.
[265] Illinois Economic Policy Institute, "Legalizing Sports Betting In Illinois: Evaluating Policy Options and Fiscal Impacts," February 5, 2019, p. i.
[266] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2019, April 2018, p. 9.
[267] Jason Grotto and Sandhya Kambhampati, "How Illinois Bet on Video Gambling and Lost," *ProPublica Illinois*, January 16, 2019.

As with marijuana, sports betting revenues should not be used to balance the budget or fund capital borrowing. Instead, they should be designated for one-time expenses, such as paying down the State's backlog of unpaid bills.

Graduated Income Tax

Enacting a graduated income tax in Illinois would require amending the constitution to repeal its flat tax requirement.[268] Because constitutional amendments require a three-fifths majority of both houses of the General Assembly and subsequent approval by voters, a graduated tax could not be enacted until November 2020 at the soonest and the State cannot count on any revenues from a graduated income tax to address its near-term fiscal challenges. However, if a constitutional amendment were to pass, and the General Assembly and Governor were to enact a graduated tax structure, the Civic Federation advises that the top individual rate be no more than three percentage points higher than the bottom rate. A Civic Federation analysis of tax brackets has showed that such a restriction would help ensure that a graduated tax structure would bring in revenues needed to solve Illinois' many fiscal challenges while avoiding overburdening any one group of taxpayers.[269] Moreover, eliminating the retirement exemption could help the state keep the rates on all tax brackets lower.[270]

[268] Ill. Const. art. IX, sec. 3(a).
[269] Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Measuring the Impact of a Graduated Income Tax in Illinois," March 9, 2018, https://www.civicfed.org/iifs/blog/measuring-impact-graduated-income-tax-illinois (last accessed on February 12, 2019).
[270] Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Measuring the Impact of a Graduated Income Tax in Illinois Part II – Taxing Retirement Income at Graduated Rates," March 9, 2018, https://www.civicfed.org/iifs/blog/measuring-impact-graduated-income-tax-illinois-part-ii-%E2%80%93-taxing-retirement-income (last accessed on February 12, 2019).

Local Governments

The Civic Federation recognizes the State's vital role in distributing resources to local governments through the Local Government Distributive Fund. **The State should continue to allocate a share of any new revenues to local governments.** The following chart shows the effect on local governments from the two revenue proposals included in this report.

Civic Federation Comprehensive Plan FY2020 to FY2024 (in $ millions) Revenue Assistance to Local Governments*					
Revenue Source	**Projected FY 2020**	**Projected FY 2021**	**Projected FY 2022**	**Projected FY 2023**	**Projected FY 2024**
Local Government Share of Retirement Income Tax	$ 164	$ 171	$ 179	$ 188	$ 196
Local Share of Service Sales Tax	$ 104	$ 119	$ 147	$ 147	$ 147
Total Assistance to Local Government	**$ 268**	**$ 291**	**$ 326**	**$ 335**	**$ 343**

Source: Illinois Department of Revenue, "Illinois Individual Income Tax Returns with Retirement Subtraction: Tax Year 2016"; Internal Revenue Service, "Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2016"; Illinois General Assembly, Commission on Government Forecasting and Accountability, "Service Taxes 2017 Update, January 2017," p. 19; Civic Federation Calculations.

Local governments are creations of state government. Illinois needs to recognize that it has a responsibility to the many local governments throughout the State that are experiencing financial distress. **The Civic Federation urges the State to adopt a Local Government Protection Authority**, which would create a quasi-judicial organization to weigh options and propose reforms in distressed communities.[271] The goal would be to avert further financial deterioration and avoid the need for bankruptcy, which is currently unavailable to municipalities under Illinois law.

[271] 100th Illinois General Assembly, House Bill 2575, introduced on February 8, 2017.

APPENDIX A: ILLINOIS BUDGET RESULTS

The following table shows General Funds revenues, expenditures, and budget balance from FY2008 through the projection for FY2019.

State of Illinois General Funds Budget: FY2008-FY2019 (in $ millions)												
	FY2008	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018[1]**	**FY2019[2]**
Revenues												
State-Source Revenues	$24,844	$22,577	$21,446	$24,778	$29,939	$32,208	$32,855	$33,027	$28,810	$28,021	$33,180	$34,085
Federal Revenues	$4,815	$6,567	$5,920	$5,386	$3,681	$4,155	$3,903	$3,331	$2,665	$2,483	$4,032	$3,500
Total Revenues	**$29,659**	**$29,144**	**$27,366**	**$30,164**	**$33,620**	**$36,363**	**$36,758**	**$36,358**	**$31,475**	**$30,504**	**$37,212**	**$37,585**
Expenditures												
Net Agency Spending[3]	$ 24,491	$ 26,478	$ 24,313	$ 24,610	$ 23,637	$ 24,235	$ 24,046	$ 23,534	$ 20,564	$ 24,060	$ 26,300	$ 26,775
Pension Contributions	$ 1,607	$ 2,239	$ 3,466	$ 3,680	$ 4,136	$ 5,107	$ 5,988	$ 6,047	$ 6,632	$ 6,951	$ 7,014	$ 7,103
Group Health Insurance	$ 1,055	$ 1,058	$ 1,146	$ 885	$ 1,436	$ 1,450	$ 1,446	$ 1,565	$ -	$ -	$ 1,900	$ 2,026
Statutory Transfers	$ 2,735	$ 2,082	$ 2,007	$ 2,399	$ 2,472	$ 2,340	$ 2,963	$ 2,489	$ 2,472	$ 2,385	$ 586	$ 428
Debt Service Transfer for Pension Bonds	$ 467	$ 466	$ 564	$ 1,667	$ 1,607	$ 1,552	$ 1,655	$ 1,502	$ 1,423	$ 1,609	$ 1,579	$ 1,246
Other Debt Service Transfer[4]	$ 3	$ 660	$ 1,759	$ 761	$ 809	$ 683	$ 603	$ 592	$ 556	$ 641	$ 1,221	$ 1,452
Total Expenditures	**$ 30,358**	**$ 32,983**	**$ 33,255**	**$ 34,002**	**$ 34,097**	**$ 35,367**	**$ 36,701**	**$ 35,729**	**$ 31,647**	**$ 35,646**	**$ 38,600**	**$ 39,030**
Operating Surplus (Deficit) before Borrowing for Operations[5]	**$ (699)**	**$ (3,839)**	**$ (5,888)**	**$ (3,838)**	**$ (477)**	**$ 996**	**$ 57**	**$ 629**	**$ (172)**	**$ (5,142)**	**$ (1,388)**	**$ (1,446)**
Borrowing for Operations		$ 1,000	$ 3,466	$ 5,426				$ 377	$ -	$ -	$ 533	$ 400
Operating Surplus (Deficit) after Borrowing for Operations	**$ (699)**	**$ (2,839)**	**$ (2,422)**	**$ 1,588**	**$ (477)**	**$ 996**	**$ 57**	**$ 1,006**	**$ (172)**	**$ (5,142)**	**$ (855)**	**$ (1,046)**

[1]Preliminary.

[2]Estimated.

[3]FY2019 net agency expenditures include $500 million for current and prior-year step increases.

[4]Interest on short-term borrowing in FY2010 includes $1.0 billion to repay failure of revenue borrowing in FY2009.

[5]Totals may not sum due to rounding.

Source:State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down* , November 15, 2018; Illinois State FY2019 Budget, pp. 31 and 62; State of Illinois, General Obligation Refunding Bonds, Series of September 2018, *Official Statement* , August 22, 2018, pp. 29-30; Illinois State FY2018 Budget, pp. 63 and 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2016 Budget, p. 3-21; Illinois State FY2015 Budget, pp. 2-22 and 3-21; Illinois State FY2014 Budget, pp. 2-16 and 2-29; Illinois State FY2013 Budget, pp. 2-18 and 2-31; Illinois State FY2012 Budget, p. 2-26; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement* , April 25, 2014, p. 15; Illinois State FY2011 Budget, pp. 2-10 and 2-20; Illinois State FY2010 Budget, pp. 2-12 and 2-24; Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems, Financial Condition as of June 30, 201* , March 2018, pp. 123-127.

APPENDIX B: ANNUAL POPULATION GROWTH

The following tables show the estimated annual population for Illinois and its neighboring states, as well as Michigan, Minnesota, Ohio and the whole United States.

Population Comparison 1990-1999
Estimated as of July 1

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Illinois	**11,453,316**	**11,568,964**	**11,694,184**	**11,809,579**	**11,912,585**	**12,008,437**	**12,101,997**	**12,185,715**	**12,271,847**	**12,359,020**
Indiana	5,557,798	5,616,388	5,674,547	5,739,019	5,793,526	5,851,459	5,906,013	5,955,267	5,998,880	6,044,969
Iowa	2,781,018	2,797,613	2,818,401	2,836,972	2,850,746	2,867,373	2,880,000	2,891,119	2,902,872	2,917,634
Kentucky	3,694,048	3,722,328	3,765,469	3,812,206	3,849,088	3,887,427	3,919,535	3,952,747	3,985,390	4,018,053
Michigan	9,311,319	9,400,446	9,479,065	9,540,114	9,597,737	9,676,211	9,758,645	9,809,051	9,847,942	9,897,116
Minnesota	4,389,857	4,440,859	4,495,572	4,555,954	4,610,355	4,660,180	4,712,827	4,763,390	4,813,412	4,873,481
Missouri	5,128,880	5,170,800	5,217,101	5,271,175	5,324,497	5,378,247	5,431,553	5,481,193	5,521,765	5,561,948
Ohio	10,864,162	10,945,762	11,029,431	11,101,140	11,152,454	11,202,751	11,242,827	11,277,357	11,311,536	11,335,454
Wisconsin	4,904,562	4,964,343	5,025,398	5,084,889	5,133,678	5,184,836	5,229,986	5,266,213	5,297,672	5,332,666
United States	**249,622,814**	**252,980,941**	**256,514,224**	**259,918,588**	**263,125,821**	**266,278,393**	**269,394,284**	**272,646,925**	**275,854,104**	**279,040,168**

Source: US Census, Annual Estimates of the Resident Population: Intercensal Tables, April 1, 1990 to July 1, 1999.

Population Comparison 2000-2009
Estimated as of July 1

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Illinois	**12,434,161**	**12,488,445**	**12,525,556**	**12,556,006**	**12,589,773**	**12,609,903**	**12,643,955**	**12,695,866**	**12,747,038**	**12,796,778**
Indiana	6,091,866	6,127,760	6,155,967	6,196,638	6,233,007	6,278,616	6,332,669	6,379,599	6,424,806	6,459,325
Iowa	2,929,067	2,931,997	2,934,234	2,941,999	2,953,635	2,964,454	2,982,644	2,999,212	3,016,734	3,032,870
Kentucky	4,049,021	4,068,132	4,089,875	4,117,170	4,146,101	4,182,742	4,219,239	4,256,672	4,289,878	4,317,074
Michigan	9,952,450	9,991,120	10,015,710	10,041,152	10,055,315	10,051,137	10,036,081	10,001,284	9,946,889	9,901,591
Minnesota	4,933,692	4,982,796	5,018,935	5,053,572	5,087,713	5,119,598	5,163,555	5,207,203	5,247,018	5,281,203
Missouri	5,607,285	5,641,142	5,674,825	5,709,403	5,747,741	5,790,300	5,842,704	5,887,612	5,923,916	5,961,088
Ohio	11,363,543	11,387,404	11,407,889	11,434,788	11,452,251	11,463,320	11,481,213	11,500,468	11,515,391	11,528,896
Wisconsin	5,373,999	5,406,835	5,445,162	5,479,203	5,514,026	5,546,166	5,577,655	5,610,775	5,640,996	5,669,264
United States	**282,162,411**	**284,968,955**	**287,625,193**	**290,107,933**	**292,805,298**	**295,516,599**	**298,379,912**	**301,231,207**	**304,093,966**	**306,771,529**

Source: US Census, Annual Estimates of the Resident Population: Intercensal Tables, April 1, 2000 to July 1, 2010.

Population Comparison 2010-2018
Estimated as of July 1

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Illinois	**12,840,762**	**12,867,291**	**12,884,119**	**12,898,269**	**12,888,962**	**12,864,342**	**12,826,895**	**12,786,196**	**12,741,080**
Indiana	6,490,436	6,516,045	6,537,640	6,568,367	6,593,533	6,608,296	6,633,344	6,660,082	6,691,878
Iowa	3,050,767	3,066,054	3,076,097	3,093,078	3,109,504	3,121,460	3,131,785	3,143,637	3,156,145
Kentucky	4,348,200	4,369,488	4,386,381	4,404,817	4,414,483	4,425,999	4,438,229	4,453,874	4,468,402
Michigan	9,877,535	9,881,521	9,896,930	9,913,349	9,930,589	9,932,573	9,951,890	9,976,447	9,995,915
Minnesota	5,310,843	5,345,668	5,376,550	5,413,693	5,451,522	5,482,503	5,523,409	5,568,155	5,611,179
Missouri	5,995,976	6,009,641	6,024,081	6,040,658	6,056,293	6,071,745	6,087,203	6,108,612	6,126,452
Ohio	11,539,327	11,543,463	11,548,369	11,576,576	11,602,973	11,617,850	11,635,003	11,664,129	11,689,442
Wisconsin	5,690,479	5,704,755	5,719,855	5,736,952	5,751,974	5,761,406	5,772,958	5,792,051	5,813,568
United States	**309,326,085**	**311,580,009**	**313,874,218**	**316,057,727**	**318,386,421**	**320,742,673**	**323,071,342**	**325,147,121**	**327,167,434**

Source: US Census, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018.

APPENDIX C: COMPONENTS OF ILLINOIS POPULATION CHANGE

The following tables show the components of Illinois' population change from 1991 to 2018.

Illinois Components of Population Change 1990-2000 Estimated as of July 1											
	1990-91	**1991-92**	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**1990-2000**
Natural Increase (Births minus Deaths)	91,750	89,673	87,209	81,021	81,272	76,593	78,157	78,088	74,549	73,401	**811,713**
Net Domestic Migration	(50,221)	(50,573)	(59,560)	(62,661)	(63,889)	(63,667)	(67,785)	(70,965)	(62,321)	(66,214)	**(617,856)**
Net International Immigration	32,586	41,064	44,269	42,279	37,320	40,582	47,193	49,573	48,506	48,409	**431,781**
Illinois Total Population Change*	**91,715**	**100,678**	**90,790**	**78,202**	**70,887**	**68,215**	**58,513**	**60,613**	**61,368**	**56,814**	**737,795**

* Total population change includes a residual amount that cannot be attributed to any specific component.

Source: US Census, Components of Population Change: Annual Time Series, April 1, 1990 Census to July 1, 2000 Estimate.

Illinois Components of Population Change 2000-2010 Estimated as of July 1											
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2000-10**
Natural Increase (Births minus Deaths)	79,202	75,543	75,908	78,921	75,065	76,963	80,811	78,258	73,190	70,792	**764,653**
Net Domestic Migration	(69,699)	(76,923)	(72,836)	(74,270)	(84,182)	(75,230)	(53,794)	(52,752)	(46,398)	(49,843)	**(655,927)**
Net International Immigration	58,863	52,328	40,666	40,915	39,545	40,372	35,195	34,073	30,261	29,939	**402,157**
Illinois Total Population Change*	**69,068**	**50,396**	**42,214**	**44,972**	**28,617**	**41,753**	**61,276**	**60,538**	**56,876**	**51,132**	**506,842**

* Total population change includes a residual amount that cannot be attributed to any specific component.

Source: US Census, Components of Population Change: Annual Time Series, April 1, 2000 Census to July 1, 2010 Estimate.

Illinois Components of Population Change 2010-2018 Estimated as of July 1									
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2010-18**
Natural Increase (Births minus Deaths)	60,811	58,861	53,204	54,813	51,646	50,102	43,224	38,025	**410,686**
Net Domestic Migration	(65,999)	(70,308)	(67,632)	(94,459)	(108,103)	(113,136)	(114,689)	(114,154)	**(748,480)**
Net International Immigration	31,610	28,316	28,700	29,935	31,480	25,446	30,536	30,735	**236,758**
Illinois Total Population Change*	**26,529**	**16,828**	**14,150**	**(9,307)**	**(24,620)**	**(37,447)**	**(40,699)**	**(45,116)**	**(99,682)**

* Total population change includes a residual amount that cannot be attributed to any specific component.

Source: US Census, Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2018.

APPENDIX D: SUPPLEMENTAL PENSION PAYMENTS

The following tables show the application of two alternative supplemental payment plans and the effect on the funded status of the State of Illinois' five retirement systems.

State of Illinois Pension Funding Projections: Supplemental Annual Contribution FY2020 to FY2045 (in $ million) Scenario 1									
Fiscal Year	**Accrued Liabilities**	**Actuarial Value of Assets**	**Unfunded Liabilities**	**Funded Ratio**	**Supp. Contribution**	**Supplemental Contribution Value***	**Total Asssets with Supp. Value**	**Reduced Unfunded Liabilities**	**Increased Funded Ratio**
2020	$ 235,785	$ 96,542	$ (139,242)	41%	$ 811	$ 811	$ 97,354	$ (138,431)	41%
2021	$ 242,146	$ 102,125	$ (140,021)	42%	$ 811	$ 1,679	$ 103,804	$ (138,342)	43%
2022	$ 248,535	$ 107,191	$ (141,345)	43%	$ 811	$ 2,608	$ 109,799	$ (138,736)	44%
2023	$ 254,817	$ 112,122	$ (142,696)	44%	$ 811	$ 3,602	$ 115,724	$ (139,093)	45%
2024	$ 260,970	$ 117,120	$ (143,851)	45%	$ 811	$ 4,666	$ 121,786	$ (139,185)	47%
2025	$ 266,969	$ 122,172	$ (144,797)	46%	$ 811	$ 5,804	$ 127,976	$ (138,994)	48%
2026	$ 272,799	$ 127,321	$ (145,478)	47%	$ 811	$ 7,021	$ 134,342	$ (138,456)	49%
2027	$ 278,427	$ 132,574	$ (145,853)	48%	$ 811	$ 8,324	$ 140,898	$ (137,529)	51%
2028	$ 283,834	$ 137,913	$ (145,921)	49%	$ 811	$ 9,718	$ 147,631	$ (136,203)	52%
2029	$ 289,017	$ 143,379	$ (145,638)	50%	$ 811	$ 11,210	$ 154,588	$ (134,429)	53%
2030	$ 293,949	$ 148,962	$ (144,987)	51%		$ 11,995	$ 160,956	$ (132,993)	55%
2031	$ 298,604	$ 154,682	$ (143,922)	52%		$ 12,834	$ 167,516	$ (131,087)	56%
2032	$ 302,964	$ 160,598	$ (142,366)	53%		$ 13,733	$ 174,330	$ (128,633)	58%
2033	$ 307,010	$ 166,768	$ (140,242)	54%		$ 14,694	$ 181,462	$ (125,548)	59%
2034	$ 310,794	$ 174,195	$ (136,599)	56%		$ 15,722	$ 189,917	$ (120,877)	61%
2035	$ 314,245	$ 182,016	$ (132,229)	58%		$ 16,823	$ 198,839	$ (115,406)	63%
2036	$ 317,355	$ 190,281	$ (127,074)	60%		$ 18,001	$ 208,282	$ (109,073)	66%
2037	$ 320,118	$ 199,059	$ (121,059)	62%		$ 19,261	$ 218,320	$ (101,798)	68%
2038	$ 322,521	$ 208,411	$ (114,110)	65%		$ 20,609	$ 229,020	$ (93,501)	71%
2039	$ 324,585	$ 218,430	$ (106,155)	67%		$ 22,051	$ 240,481	$ (84,104)	74%
2040	$ 326,296	$ 229,176	$ (97,119)	70%		$ 23,595	$ 252,771	$ (73,524)	77%
2041	$ 327,678	$ 240,748	$ (86,930)	73%		$ 25,247	$ 265,995	$ (61,684)	81%
2042	$ 328,776	$ 253,265	$ (75,511)	77%		$ 27,014	$ 280,279	$ (48,497)	85%
2043	$ 329,642	$ 266,857	$ (62,785)	81%		$ 28,905	$ 295,762	$ (33,880)	90%
2044	$ 330,344	$ 281,672	$ (48,672)	85%		$ 30,928	$ 312,601	$ (17,743)	95%
2045	$ 330,953	$ 297,859	$ (33,093)	90%		$ 33,093	$ 330,953	$ -	100%
Total					**$ 8,113**				

*Assumes supplemental contributions of $811 million annually from FY2020 through FY2029. Earnings on these contributions, with a 7.0% long-term rate of return, would be sufficient to lower the unfunded liabilities of the funds to zero by FY2045.

Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, "*Special Pension Briefing*," November 2018, p. 13; Civic Federation calculations.

State of Illinois Pension Funding Projections: Supplemental Annual Contribution FY2020 to FY2045 (in $ million) Scenario 2									
Fiscal Year	**Accrued Liabilities**	**Actuarial Value of Assets**	**Unfunded Liabilities**	**Funded Ratio**	**Supp. Contribution**	**Supplemental Contribution Value***	**Total Asssets with Supp. Value**	**Reduced Unfunded Liabilities**	**Increased Funded Ratio**
2020	$ 235,785	$ 96,542	$ (139,242)	41%	$ 482	$ 482	$ 97,024	$ (138,760)	41%
2021	$ 242,146	$ 102,125	$ (140,021)	42%	$ 482	$ 997	$ 103,122	$ (139,024)	43%
2022	$ 248,535	$ 107,191	$ (141,345)	43%	$ 482	$ 1,549	$ 108,740	$ (139,795)	44%
2023	$ 254,817	$ 112,122	$ (142,696)	44%	$ 482	$ 2,139	$ 114,261	$ (140,556)	45%
2024	$ 260,970	$ 117,120	$ (143,851)	45%	$ 482	$ 2,771	$ 119,891	$ (141,079)	46%
2025	$ 266,969	$ 122,172	$ (144,797)	46%	$ 482	$ 3,447	$ 125,619	$ (141,350)	47%
2026	$ 272,799	$ 127,321	$ (145,478)	47%	$ 482	$ 4,170	$ 131,491	$ (141,307)	48%
2027	$ 278,427	$ 132,574	$ (145,853)	48%	$ 482	$ 4,944	$ 137,518	$ (140,909)	49%
2028	$ 283,834	$ 137,913	$ (145,921)	49%	$ 482	$ 5,772	$ 143,685	$ (140,149)	51%
2029	$ 289,017	$ 143,379	$ (145,638)	50%	$ 482	$ 6,658	$ 150,036	$ (138,981)	52%
2030	$ 293,949	$ 148,962	$ (144,987)	51%	$ 482	$ 7,606	$ 156,567	$ (137,382)	53%
2031	$ 298,604	$ 154,682	$ (143,922)	52%	$ 482	$ 8,620	$ 163,302	$ (135,302)	55%
2032	$ 302,964	$ 160,598	$ (142,366)	53%	$ 482	$ 9,705	$ 170,303	$ (132,661)	56%
2033	$ 307,010	$ 166,768	$ (140,242)	54%	$ 482	$ 10,866	$ 177,634	$ (129,376)	58%
2034	$ 310,794	$ 174,195	$ (136,599)	56%	$ 482	$ 12,109	$ 186,304	$ (124,490)	60%
2035	$ 314,245	$ 182,016	$ (132,229)	58%	$ 482	$ 13,438	$ 195,454	$ (118,791)	62%
2036	$ 317,355	$ 190,281	$ (127,074)	60%	$ 482	$ 14,861	$ 205,142	$ (112,213)	65%
2037	$ 320,118	$ 199,059	$ (121,059)	62%	$ 482	$ 16,383	$ 215,442	$ (104,676)	67%
2038	$ 322,521	$ 208,411	$ (114,110)	65%	$ 482	$ 18,012	$ 226,423	$ (96,098)	70%
2039	$ 324,585	$ 218,430	$ (106,155)	67%	$ 482	$ 19,755	$ 238,184	$ (86,401)	73%
2040	$ 326,296	$ 229,176	$ (97,119)	70%	$ 482	$ 21,619	$ 250,796	$ (75,500)	77%
2041	$ 327,678	$ 240,748	$ (86,930)	73%	$ 482	$ 23,615	$ 264,363	$ (63,316)	81%
2042	$ 328,776	$ 253,265	$ (75,511)	77%	$ 482	$ 25,749	$ 279,014	$ (49,762)	85%
2043	$ 329,642	$ 266,857	$ (62,785)	81%	$ 482	$ 28,034	$ 294,891	$ (34,751)	89%
2044	$ 330,344	$ 281,672	$ (48,672)	85%	$ 482	$ 30,478	$ 312,150	$ (18,194)	94%
2045	$ 330,953	$ 297,859	$ (33,093)	90%	$ 482	$ 33,093	$ 330,953	$ -	100%
Total					**$ 12,529**				

*Assumes supplemental contributions of $482 million annually from FY2020 through FY2045. Earnings on these contributions, with a 7.0% long-term rate of return, would be sufficient to lower the unfunded liabilities of the funds to zero by FY2045.

Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, "*Special Pension Briefing*," November 2018, p. 13; Civic Federation calculations.

APPENDIX E: FALL UNDERGRADUATE ENROLLMENT AT ILLINOIS PUBLIC UNIVERSITIES

The following chart shows fall undergraduate enrollment at the 12 campuses of Illinois' nine public universities, as measured by headcount, from 2008 to 2018. The 2017 and 2018 numbers are preliminary and data were not available for 2013.

Fall Undergratuate Enrollment at State of Illinois Public Universities: 2008 to 2018*

Institution	2008	2009	2010	2011	2012	2014	2015	2016	FY2017**	FY2018**
Chicago State University	5,211	5,398	5,675	5,280	4,618	3,912	3,462	2,352	2,095	2,022
Eastern Illinois University	10,261	10,225	9,970	9,657	8,975	7,640	7,202	5,957	5,568	6,012
Governors State University	2,608	2,791	2,993	2,943	3,178	3,585	3,570	3,517	3,326	3,262
Illinois State University	18,065	18,389	18,314	18,594	18,257	18,155	18,427	18,643	18,330	18,107
Northeastern Illinois University	8,987	9,191	9,498	9,421	9,140	8,412	8,095	7,665	7,113	6,390
Northern Illinois University	18,431	18,277	17,886	17,306	16,552	15,435	15,027	14,079	13,454	12,788
Southern Illinois University Carbondale	15,980	15,551	15,137	15,000	14,130	13,461	13,031	12,182	10,987	9,552
Southern Illinois University Edwardsville	10,977	11,144	11,305	11,428	11,341	11,421	11,781	11,720	11,402	10,833
U of I at Chicago	15,665	16,044	16,806	16,925	16,678	16,718	17,575	17,959	19,448	20,783
U of I at Springfield	2,889	3,027	3,197	3,112	3,054	3,038	2,937	2,959	2,932	2,814
U of I at Urbana/Champaign	31,417	31,477	31,540	32,256	32,281	32,959	33,368	33,932	33,955	33,915
Western Illinois University	10,735	10,553	10,474	10,520	10,263	9,645	9,141	8,543	7,599	6,754
Public Universities Total	**151,226**	**152,067**	**152,795**	**152,442**	**148,467**	**144,381**	**143,616**	**139,508**	**136,209**	**133,232**

*Enrollment numbers are based on headcount. Data for FY2013 were not available.

**Preliminary.

Source: Illinois Board of Higher Education website, Enrollment Trend Data, Fall Headcount Enrollments, http://www.ibhe.org/IBHEDatabook/ChapterI/Table%20I-14.aspx; Preliminary Fall 2017 Enrollments in Illinois Higher Education; Preliminary Fall 2018 Enrollments in Illinois Higher Education.