Illinois House Republicans

The Democrats’ Borrow and Spend Budget

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BUDGET COMMENTARY

Last year’s budget (FY 2006) was built upon the most egregious raid on Illinois’ pensions system in the state’s history of $1.2 billion. To make matters worse, the FY 07 budget, which was passed with no Republican votes, raided the pension systems again by $1.1 billion and increased spending by over $1.4 billion. This budget, which was muscled through the General Assembly by Chicago Democrat Leaders and the Governor, is a blueprint for financial disaster. House Republicans, however, will do everything in their power to oppose the current Democrat program of increased spending, adding programs we cannot afford, and rapidly escalating Illinois’ long term debt through pension raids and massive fund sweeps.

The policy of this administration and its Democrat allies in the General Assembly to defer the difficult choices on real budget issues, such as pensions and Medicaid debt, to future governments and future generations. Play now, pay later. The Governor even claims to have balanced the budget after inheriting a $5 billion deficit. His numbers do not square with the truth. Not only has he robbed $2.3 billion from the pensions system over the past two years to help fund his budget, but he has almost $2 billion in unpaid Medicaid bills that he has not accounted for in this year’s budget.

The Democrats continue to spend money on programs that we cannot afford. Many of the Governor’s new proposed programs sound good on paper, and are especially popular during his re-election campaign. But it is fiscally imprudent to launch new programs when Illinois already has trouble paying for existing services. In fact, the Governor is campaigning on these new initiatives before they have even passed.

Many of the Democrats’ proposed new ideas, such as free pre-school and new construction projects, we would wish for all of our constituents if we lived in a world of endless tax money and no debt, but we do not. The FY 2007 budget is fiscally irresponsible and is spending money that our children and grandchildren are going to have to pay back. Money that should be used to pay our current Medicaid, Pension, and Health Care bills. It is no wonder why some dub Illinois as a “deadbeat state.” Democrats apparently have invented a new way of balancing the budget, they just have decided not to pay the bills. It is pretty easy to balance a budget when you do not pay your bills.

Consider these facts:

- According to the Civic Federation, the Democrats FY 2007 budget shortchanges the state’s pension funds by another $1.1 billion as part of their five year $3.5 billion pension raid.

- The state’s pension system is still only funded at 60 percent of future obligations, leading a New York bond-rating agency to issue Illinois a “negative outlook,” one of only three states to receive the rating.
Illinois expects to owe $2 billion in delinquent Medicaid payments by the end of June.

More than 23 percent of existing expenditures on public services are financed with debt or one-time revenues.

The Democrats have nearly tripled Illinois General Obligation Bond debt from $7.6 billion to $20.3 billion in just three years. According to Moody’s, Illinois’ has the third highest bond debt in the country; and sixth highest in debt per person.

The Democrats want to skip pension payments while at the same time increasing spending for new initiatives we cannot afford.

How do the Democrats propose to pay for everything? One way the Democrats suggest is to “close corporate loopholes,” which boils down to collecting more tax money from businesses. We believe that the state should be cutting taxes and fees to encourage businesses to come to Illinois; not closing “loopholes” that impose new taxes on Illinois businesses. If it were not for the Governor’s and Democrats’ insatiable desire for increased spending, these tax increases would not be necessary, and Illinois would not have the 4th worst job growth in the nation.

Sure, bond debt, taxes, and pensions aren’t very sexy issues, especially during an election year. But excessive borrowing which is putting our pension system in financial jeopardy and leaving our children and grandchildren with huge tax increases to pay off the state’s debt – are very serious issues that need to be addressed. We must put an end to the borrow-and-spend cycle that is the policy of the Democrats in Illinois government.

The following document will outline House Republicans’ views on many of the important issues surrounding the current budget debate, and offer our solutions to correct the path to financial disaster on which Illinois Democrats have placed us.
KEY BUDGET POINTS

- The proposed FY 2007 state budget increases spending by $1.4 billion.

- The Democrats will raid $1.1 billion from the state’s pension system to pay for the FY 2007 budget. This is year two of a five-year pension raid of $3.5 billion, that will cost taxpayers $38.5 billion to repay.

- Pension raids continue to place the future of teachers and state employees in doubt. But every taxpayer will be affected. Repaying the $38.5 billion in raided pension funds will cost every man, woman and child in Illinois $3,500.

- Bloated borrowing puts our state's financial health at serious risk. Borrowed money is not real money. If you believe that, try this one out on your spouse – “Honey, we spent $1.4 billion more than we earned last year, but don’t worry – I just put the difference on our credit card.”

- Despite a lagging economy, businesses are again being targeted under this budget with $25 million in tax increases.

- The Democrat budget continues to raid special state funds by $159 million.

- Illinois should meet existing obligations before creating and enacting expensive new programs, most of which have recurring costs.

- The FY 2007 Democratic budget again features one-time fixes (pension raids, fund sweeps, etc) with no way to pay for their proposed new spending.

- The state’s backlog of unpaid Medicaid bills is expected to reach almost $2 billion by June 30th, which is three times higher than ten years ago. Nursing homes, pharmacies and hospitals are being forced to wait on average 3 months for payment from the state for care they have already provided.

- Debt service in FY 2007 is expected to be approximately $1.6 billion, which is more than the budgets of the Department of Corrections $1.2 billion or the Department of Children and Family Services $1.3 billion.
**Borrowing and Spending History**

**Fiscal Year 2004- 1st Budget**

The Fiscal Year 2003 state budget reduced appropriations by $1.1 billion over the previous year. This was the last budget implemented before Democrats took full control of state government. Shortly after Governor Blagojevich took office, he announced the state faced a $5 billion deficit. Although many challenged the Governor’s figure, Illinois clearly faced revenue shortfalls. Instead of further reducing spending he increased spending by $1.1 billion based on borrowing and one-time revenues. This increased spending occurred mainly in the areas of education and Medicaid.

To finance this increased spending the Governor proposed a number of one-time revenue measures that did not occur such as: selling the Thompson Center ($200 million); selling the Tollway Authority Building ($30 million); Sale of the 10th riverboat license ($350 million); and sweeping the Environmental Trust Fund ($125 million). In addition to these failed revenue sources were others which were used to increase spending which were subsequently repealed or reduced including: Commercial Distribution Fee ($102 million); Road Fund Sweep ($144 million); Graphic Arts exemption ($4 million); and the Manufacturer’s Purchase Credit ($20 million). In addition, the Governor short-term borrowed $1.5 billion to pay for increased spending and a backlog of Medicaid bills.

The increased spending contained in this budget, along with the use of one-time revenues caused a structural budget deficit that continues through today.

**Fiscal Year 2005- 2nd Budget**

The Governor announced as part of his budget address that there was a $1.7 billion “structural deficit” in the budget. A bi-partisan budget agreement was finalized in late July and included a number of elements that helped close the deficit. Across-the-board reductions of $200 million to offset increases in education and Medicaid; Medicaid lines were reduced by 3.5%; the Governor short-term borrowed $850 million a month prior to the beginning of the FY05 budget; in March of FY05 he again short-term borrowed another $765 million. This borrowing was necessary because the state’s fiscal condition did not support the current levels of spending.

**Fiscal Year 2006- 3rd Budget**

Prior to the introduction of the Governor’s third budget, it was estimated that the structural deficit continued to cause a “hole” of anywhere between $1.2 to $2 billion. This deficit continued because of the increased base spending of the FY04 budget that relied on one-time revenues, failed revenues, and borrowing.
The FY06 budget was a partisan budget passed without a single Republican vote in the House or the Senate. This budget, like the one for FY04, increased spending by over $1 billion. It included increases in spending for education, Family Care, nearly $1.7 billion in capital without a revenue stream to support the debt service, and a pension raid of $1.2 billion that helped pay for Democrat pork projects and more increases in base spending. The FY06 again failed to address the $1.6 billion in Medicaid bills, which will grow to nearly $2 billion by June of 2006.

Fiscal Year 2007- 4th Budget

The Governor and General Assembly Democrats continue their unprecedented streak of borrowing and spending. The FY07 budget is based on another pension raid, this time it is $1.1 billion. We are raiding a pension system that is rated the worst in the nation. Spending continues to spiral upward and is increased over last year’s budget by $1.4 billion, a better than 5% increase. It raids special state funds by $159 million and the Income Tax Refund account by $44 million. The Medicaid backlog to health care providers (doctors, pharmacies, nursing homes, etc.) balloons to almost $2 billion by the end of FY06. Debt service is projected to be approximately $1.6 billion. The FY07 budget increases taxes on Illinois businesses by $25 million.

This partisan budget passed by Democrats fails to address the very real problems of unchecked spending; continued under funding of pensions; ever-increasing Medicaid bills; and the irresponsible policy of borrowing and spending.

Perhaps the Civic Federation said it best in expressing its opposition to the FY07 budget, “Not only is Illinois not taking care of its current and past obligations, it is creating new and potentially large future obligations. We at the Federation cannot stress enough how important it is for the future of the state of Illinois that current responsibilities be taken care of before shouldering new spending commitments.”
Democrat’s Uncontrolled Borrowing

General Obligation Debt Outstanding

Billions

FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 Est. FY07 Est.

Edgar
Ryan
Blagojevich
Principal Payments on Blagojevich’s $11 billion of debt incurred in first year in office.
Borrowing to Balance
PENSION RAIDS

The state of Illinois has the worst funded pension system in the United States. The state has promised $39 billion more in pension benefits that it has paid for, and it has used the complexity of pension funding to hide structural deficits through tricky accounting. On April 13\textsuperscript{th}, a New York bond-rating agency gave Illinois a “negative outlook,” due to the fact that our pension burdens could very well lead to massive spending cuts or heavy tax increases. Unless you’re a CPA, debates over pension funds and costs rarely capture public appeal. But it should very soon, because these unfunded promises made by the state to its workers are piling up, and it is leaving less and less money for education, schools, roads, or just about anything else.

The problem is one that started many years ago when lawmakers continually failed to set aside enough money to ensure the financial soundness of Illinois’ pension funds. Legislators finally tried to right the ship under Governor Jim Edgar in 1995 by passing a law to steadily make increasing payments stretching to 2045.

But it has been downhill ever since. Retirement benefits were increased. Then in 2005 the Democrats diverted $1.2 billion in pension payments as part of their five-year $3.5 billion pension raid. The long term effect of this pension raid is to cost taxpayers $38.5 billion to repay.

**Key Points:**

- Governor Blagojevich is the only Governor since 1995 to never make a full pension payment in accordance with the 1995 law.
- The 1995 law was working. The state was on track to meet our pension obligations. Now, we have the worst funded pension systems in the nation. This is an undisputable fact.
- Last June, the state’s five pension systems had $58 billion in assets and $97 billion in accrued liability. That 60 percent funding ratio is one of the worst in the nation. That is another fact.
- The Democrats’ pension raid short the pension funds by approximately $3.5 billion over the next five years, with a long term cost of at least $38.5 billion over the life of the plan.
- When the total cost is divided by the number of people in the state, we will end up paying as much as $3500 per person to pay off the pension debt.
- Make no mistake…Democrats who voted to raid the pensions are setting us up for major budget cuts or a major tax increase, not to improve schools or provide new health care benefits, but simply to pay our pension obligations.
What the Democrats are doing in this budget is under funding what we are supposed to pay into our pension systems. For each dollar we are under funding, it will cost someone $11 in the future to catch up. That someone is our children and grandchildren.

Because pension raids and bond indebtedness are not glitzy campaign issues, taxpayers have yet to pay attention this year. But this issue is set to explode.

Ultimately, the taxpayers of Illinois will be paying taxes primarily to fund the pensions of long-retired workers. This fiscal imprudence and the holes created in our pension funds will eventually consume all new revenues.
FUND SWEEPS

Democrats have become masters of robbing money out of special-purpose funds to be used for general state expenses. By the close of the current fiscal year, June 30, they will have transferred more than $160 million out of special funds. Folding these funds in with the regular budget makes it very difficult to keep track of whether the money is being spent on the purpose for which it was collected. This is another gimmick where the Democrats sweep money from existing funds in order to pay for new spending. Lawsuits are still pending regarding their authority to raid funds.

Key Points:

➢ Since 2004, Democrats have raided more than $1.2 billion from special funds to increase spending. The Governor’s Fiscal Year 2007 budget proposal relies on another fund raid totaling $144 million.

➢ Democrats have diverted almost $1 million from the Veteran’s Rehabilitation Fund, but now want a new veteran’s health care program.

➢ Democrats want to create a new scholarship program but have taken money from special license plate funds earmarked for need-based scholarships.

➢ These are just a few of the examples of the hypocrisy of raiding special funds to increase spending and later claiming the need for additional borrowing.

Robbing Peter to Pay Paul
MEDICAID: ANOTHER BUDGET BREAKER

Since 1997, the year-end tab for Medicaid payments has grown steadily, about triple what it was back then. The Governor and the Democrats in the Assembly borrowed money in 2003 and 2005 to clear out some overdue Medicaid bills. This practice of short-term borrowing is one we are all too familiar with. In the past three years, Democrats have borrowed more than $4 billion in cash to alleviate the problem of delayed payments. That is almost half of the cash Illinois has borrowed in the last 25 years.

At the end of this budget year, Illinois expects to owe almost $2 billion in delinquent Medicaid payments. It makes you wonder how we can launch major new health care and insurance programs when we can’t even pay our current bills.

Hospitals, pharmacies, nursing homes and other providers have been forced to wait months to be reimbursed for expenses they have already incurred. Twenty-six nursing homes have been forced to close their doors in the last two years alone.

At the same time, however, Medicaid eligibility has expanded every year of the Blagojevich administration, resulting in 1 out of every 7 Illinois residents enrolling in the program. Medicaid liability has increased from $6.4 billion to $8.25 billion under Blagojevich for an increase in $1.9 billion in only three years.
Key Medicaid Points:

- An Illinois Department of Health Care and Family Services survey last year found that more than 54 percent of the 244 pharmacists responding had to borrow money just to keep their doors open.

- The survey also showed the average waiting period for a Medicaid payment was 111 days, and the average amount owed to pharmacies was $118,115.

- Payment delay to Medicaid providers further escalates the growing debt future administrations will have to address.

- A volume of unpaid bills could cause a variety of disruptions in vital state services.

Unsustainable Growth

State Budget in 20 Years
(assuming current Medicaid growth rates and overall budget growth of 3.5%)
A BETTER WAY: OUR PLAN

Democrats have chosen to exclude Republicans from the budget process because they know we will not support an irresponsible spending plan. The best method to fairly distribute over $25 billion in Illinois taxpayer money is to work together to craft a bipartisan budget that is fair to Chicago, the suburbs, central and downstate Illinois.

House Republicans support:

- Reining in spending, paying down escalating debt, and adopting a zero growth budget with across-the-board reductions;
- Ending fund sweeps and cash borrowing to pay for day-to-day state expenses;
- Repealing the 2003 law that authorized the Governor and his office to reach down into dedicated state funds and extract monies to fill gaps in general revenue;
- Adopting legislation that requires a 3/5 majority in both Houses to approve spending taxpayer money;
- Adopting legislation that requires a 3/5 majority in both Houses for all proposed increases in state income and sales taxes;
- Restoring the Fiscal Year 2007 pension payment;
- Creating a task force on how to pay back the Fiscal Year 2006 pension raid;
- Banning the issuance of new general obligation debt without the consent of the Comptroller and the Treasurer unless the total debt service expenses of the state comprise less then 7 percent of the General Revenue Fund plus the Road Fund;
- Applying all new revenues to the state’s pension contribution and the current backlog of Medicaid Bills;
- Implementing real HMO reform;
- Maintaining current education funding levels;