

UPDATE ON ILLINOIS' ECONOMIC AND FISCAL CHALLENGES AND RESPONSES

PRESENTATION TO THE BOARD OF TRUSTEES
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OVERVIEW

- Recent IGPA activities
- Economic Overview
 - The U of I Flash Index
 - Illinois unemployment
 - Economic forecasts
- Fiscal Overview
 - Source and use funds
 - Illinois' Payment Backlog
 - 2013 Budget Proposals – Governor and Legislature
 - Illinois Bond Rating
- Summary

RECENT IGPA ACTIVITIES

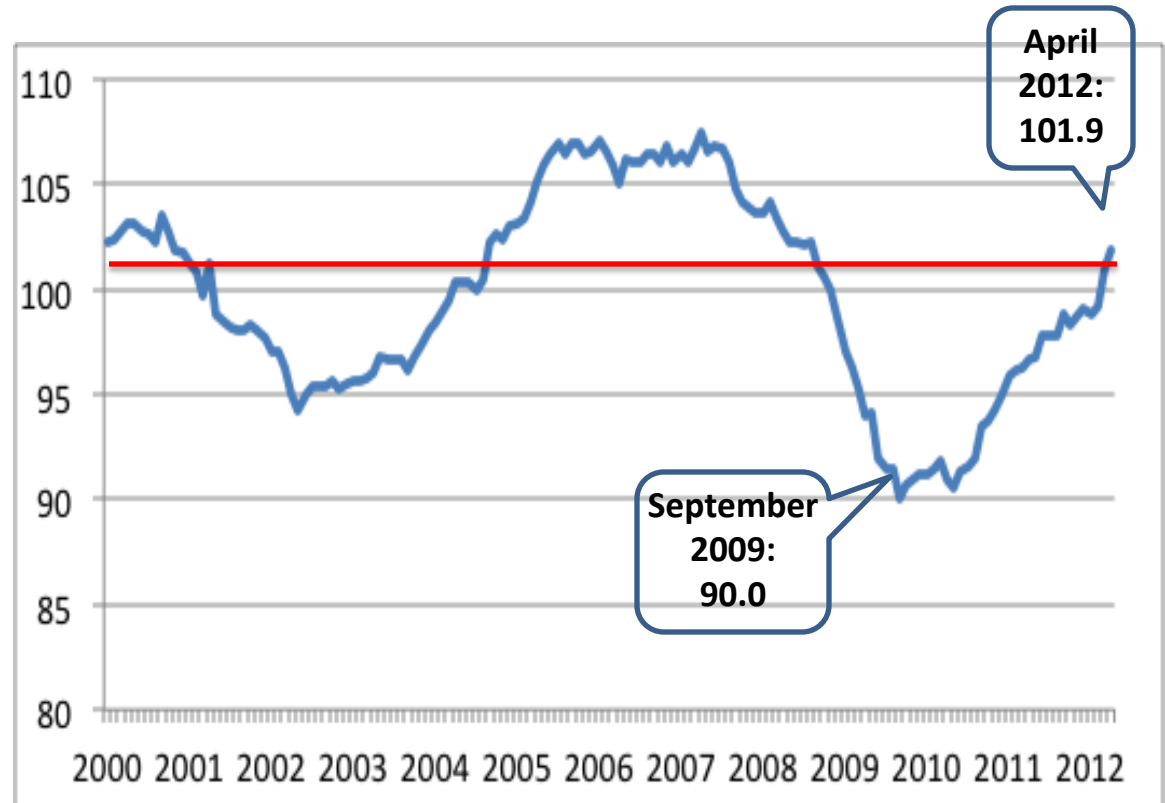
- Task Force on the State Budget Crisis (lead by Paul Volcker and Richard Ravitch)
 - Presentations coming in July
- Institute for Policy and Civic Engagement (IPCE) State Budget Outreach
 - Presentations in April and May to community groups
- Analysis of Recent State Budget Developments
 - As described in next slides



ECONOMIC OVERVIEW

THE STATE ECONOMY AS A WHOLE

- Weighted average of growth rates in corporate earnings, consumer spending and personal income
- April 2012 Flash Index = 101.9, up from 101 in March (100 is the dividing line between expansion and contraction)
- It has taken longer for the Flash Index to reach the 100 level after the 2007-2009 recession than in the previous three recessions where the Flash Index is available



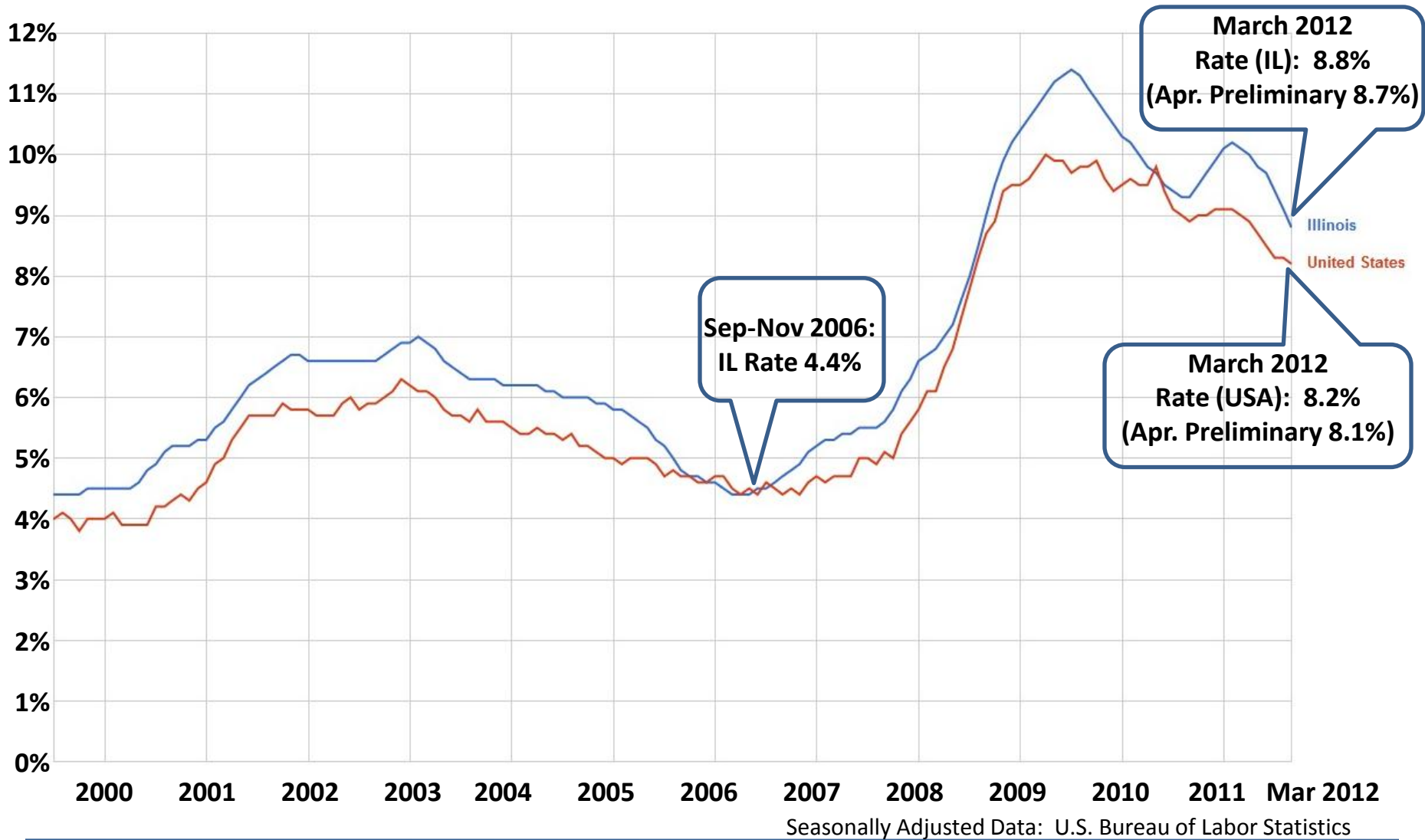
Source: IGPA Analysis

A CAUTIONARY NOTE

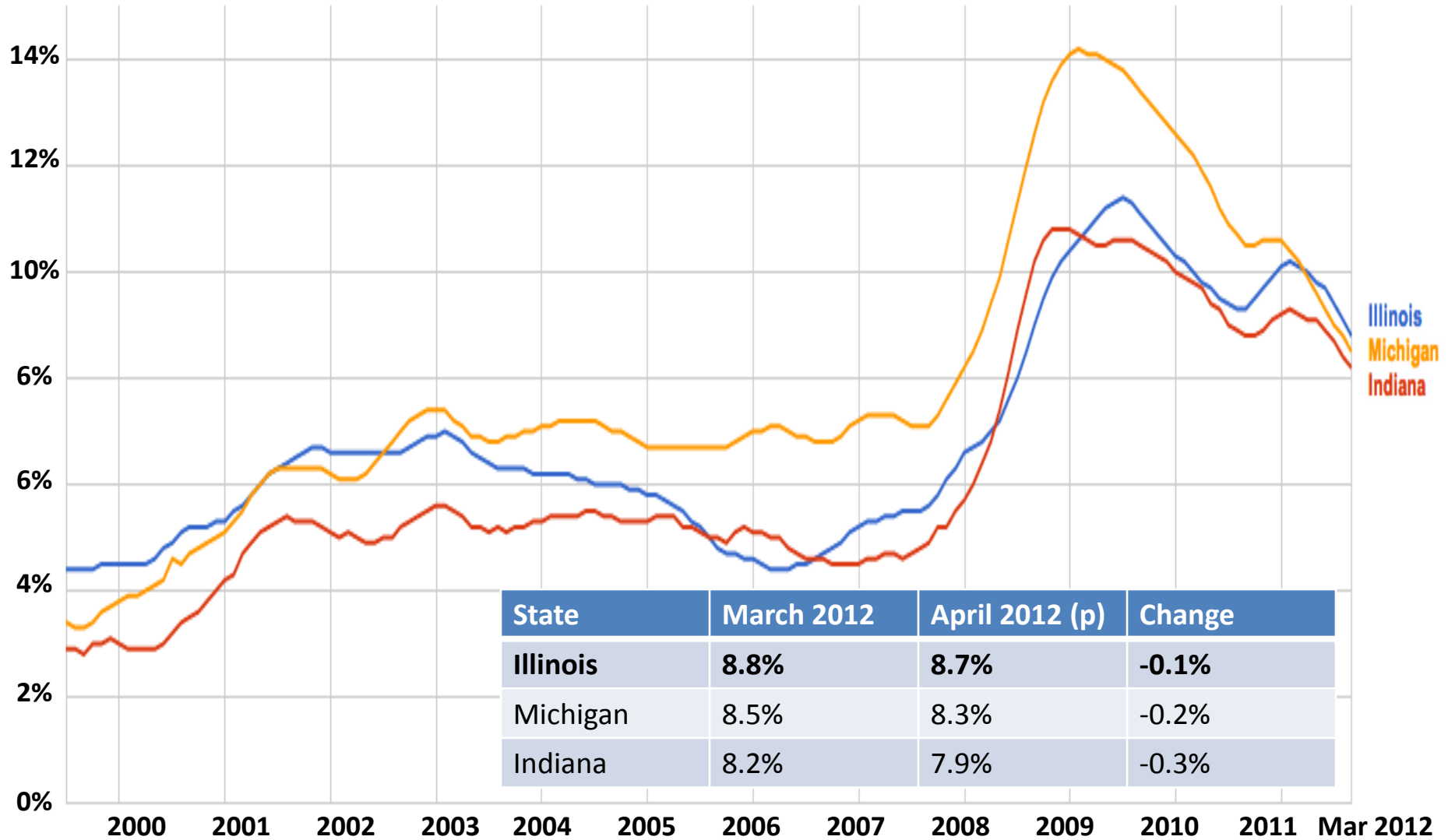
- Edward Boss, Chief Economist for the Commission on Government Forecasting and Accountability (COGFA) notes:
 - Real GDP growth has slowed to 2.2% in Q1 2012 from 3% in Q1 2011
 - “Already the 3-year recovery has been the weakest in at least the post WWII era and further weakness could put the current expansion in jeopardy.”

Source: <http://www.ilga.gov/commission/cgfa2006/Upload/0412revenue.pdf>

ECONOMIC OVERVIEW – UNEMPLOYMENT



ECONOMIC OVERVIEW – UNEMPLOYMENT



Seasonally Adjusted Data: U.S. Bureau of Labor Statistics

ECONOMIC FORECASTS

- Notable differences between Moody's Analytics (MA) and U of I Regional Economics Applications Laboratory (REAL - used by Fiscal Futures)
- Even using optimistic numbers, recovery will take time

Calendar Year	Employment (% change)		Unemployment Rate (%)		Personal Income (% change, nom.)	
	MA	REAL	MA	REAL	MA	REAL
2013	1.8	0.3	7.1	8.1	7.3	2.5
2014	2.1	0.3	5.4	7.7	5.8	2.9
2015	1.4	0.6	4.9	7.4	5.2	3.3
2016	0.0	0.7	5.1	7.1	4.1	3.9
2017	-0.2	0.7	5.2	6.8	3.9	3.6
2018	-0.1	0.8	5.3	6.4	3.7	4.0
2019	0.0	0.7	5.3	6.0	3.7	3.9

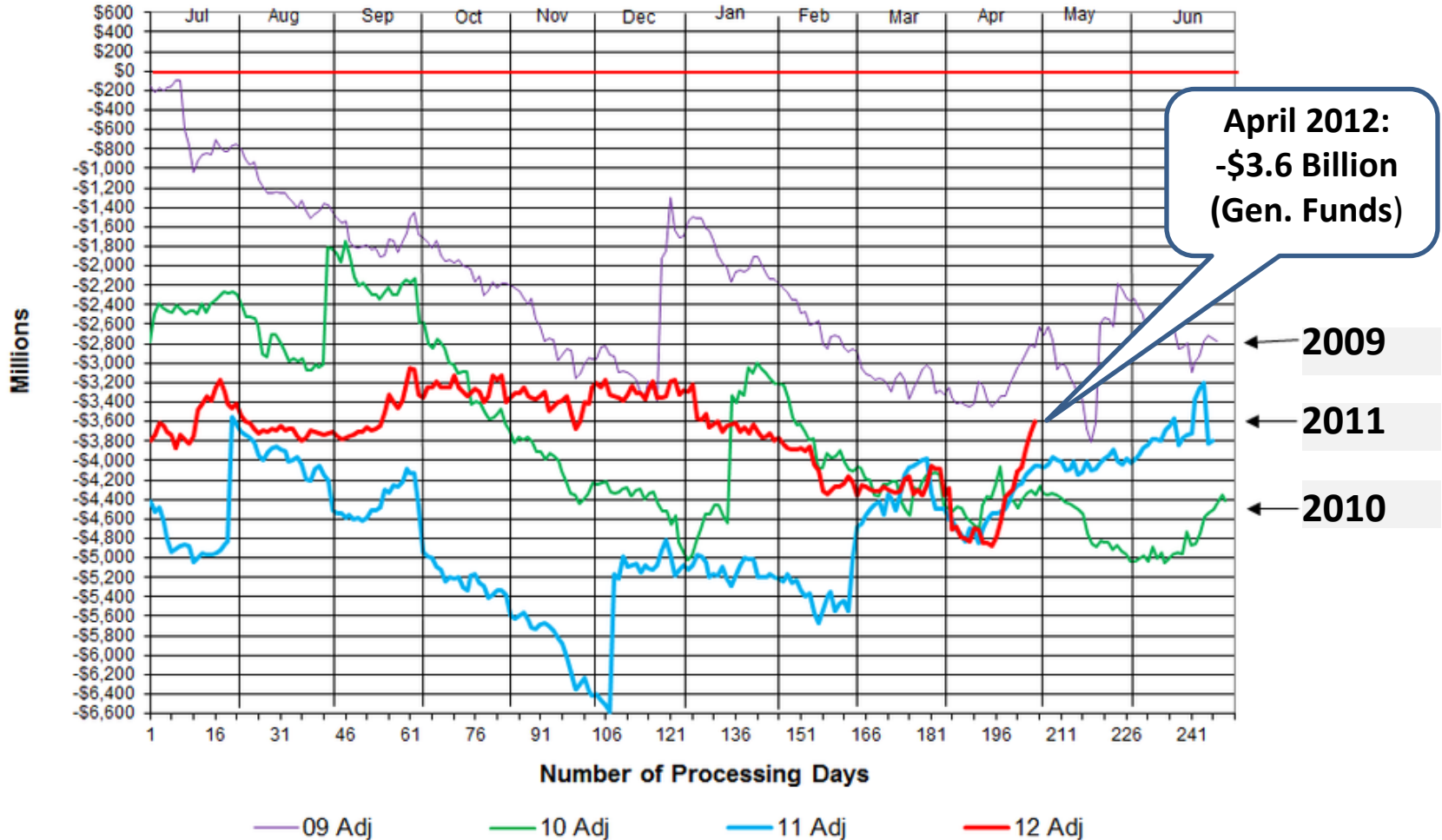
Sources: IGPA Fiscal Futures Analysis, University of Illinois Regional Economics Applications Laboratory (REAL), Moody's Analytics



FISCAL OVERVIEW

ILLINOIS' PAYMENT BACKLOG

Comparison of General Revenue Fund Daily Cash Balances
 FY 2009-FY 2012 Adjusted to Reflect Unpaid Bills



Source: Illinois Comptroller, May 2012

2013 BUDGET PROPOSALS – GOVERNOR AND LEGISLATURE

- Both contain cuts in areas that people care about
 - This is because most state expenditures are in the areas people care about: education, health, and human services
- Both proposals contain theoretical general funds “surpluses”
 - Note this is only general funds – not total government
- Both proposals use these “surpluses” to begin addressing the state’s ongoing backlog of unpaid bills to different degrees
- 2013 Capital Budget Book has still not been released

GOVERNOR QUINN'S BUDGET PROPOSAL FOR FISCAL 2013

- **Maintain** (and slightly increase) **education funding** - both K-12 and higher education
 - However, federal stimulus spending has dried up, so overall funding may be lower in some cases
- Most other agencies face a **cut of approximately 9 percent**
 - Proposed prison closures (e.g. Tamms, Dwight)
- Assumes **full statutory pension contribution** (an increase over last year)

Source: FY 2013 IMB Budget Presentation:

<http://www2.illinois.gov/budget/Documents/Budget%20Book/FY%202013/FY13%20Budget%20Presentation%20FINAL.pdf>

GOVERNOR FY 2013 BUDGET: ASSUMPTIONS

- **Reduce Medicaid spending by \$2.7 billion**
 - Why is the State facing budget pressure with regard to Medicaid?
 - Enrollment has grown as of late, which has increased spending at the same time as the state has faced deficits – and the state cannot control growth as Medicaid is an entitlement program
 - Again, the end of federal stimulus spending plays a role (federal matching rate lowered after the stimulus)

GOVERNOR FY 2013 BUDGET: MEDICAID SAVINGS

- Savings would come in part from a total of 58 cuts, reductions, and efficiencies. These include:
 - Removing people who don't belong on rolls - \$120 million
 - Reducing services, including:
 - Ending Illinois Cares Rx (seniors) - \$72 million
 - Limiting adult prescriptions - \$136 million
 - Eliminating adult dental care - \$51 million
- In addition, the governor proposes a \$1 per pack state cigarette tax increase (to \$1.98 per pack) – this would generate \$337.5 million, which would double to \$675 million due to federal matching monies

Source: Chicago Tribune Analysis, <http://www.webcitation.org/67ipSQvzn>



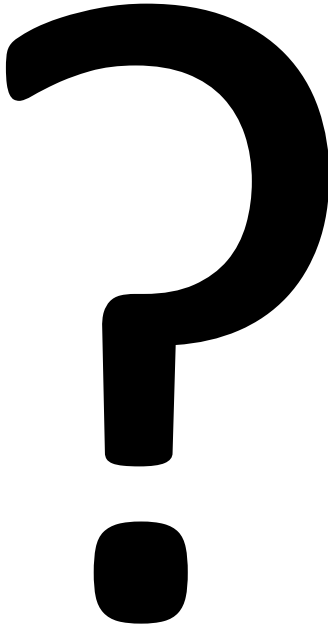
LEGISLATURE: THREE LINKED BILLS, AND A SEPARATE BILL

- Three Linked Bills:
 - Senate Bill 2840 – \$1.6 billion in State Medicaid Cuts
 - House Bill 5007 – Cook County Medicaid Expansion
 - Senate Bill 3397 – Medicaid carry-over restrictions
 - If one bill does not pass or isn't signed by the Governor, the others will also fail
- Senate Bill 2194: Tobacco Tax Increase; separate from linked bills

Sources: State Journal-Register: <http://www.webcitation.org/682BqHPY8>
<http://www.webcitation.org/682CjDge>

Chicago Tribune: <http://www.webcitation.org/682BxkzTs>

PENSIONS



ILLINOIS' BOND RATING

ILLINOIS' G.O. BOND RATINGS			
Year	S&P	Moody's	Fitch
2012	A+ (neg.)	A2 (stable)	A (stable)

- Illinois is now issuing debt at a premium due to poor financial condition (see graph at right, as of May 1)
- S&P has warned that it may further downgrade its A+ rating if the state makes “no progress on structural budget solutions” and doesn’t address “the significant pension liabilities and associated cost pressure.”

Sources: Illinois Comptroller, 2012; Nolan, 2012
(see <http://www.webcitation.org/67b6LDMXB>)

State Lines

How much 10-year debt issued by select places yields over a municipal bond-market benchmark



Source: Thomson Reuters Municipal Market Data
The Wall Street Journal

SUMMARY

- State economic conditions are improving
- Budget proposals begin to address unpaid bills, but do not solve the State's problems
 - Questions remain regarding Medicaid and pensions
 - Gap exists between Governor and Legislature
- Illinois' ongoing fiscal problems are causing the State to spend increasingly more on debt service



FOR MORE INFORMATION:

IGPA.UILLINOIS.EDU