UPDATE ON ILLINOIS’ ECONOMIC AND FISCAL CHALLENGES AND RESPONSES

PRESENTATION TO THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
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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.”

ECONOMIC OVERVIEW – UNEMPLOYMENT

March 2012
Rate (IL): 8.8%
(Apr. Preliminary 8.7%)

March 2012
Rate (USA): 8.2%
(Apr. Preliminary 8.1%)

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

Sep-Nov 2006: IL Rate 4.4%

Graph showing unemployment rates from 2000 to 2012 for Illinois and the United States, indicating a peak in 2009 for both.
## Economic Overview – Unemployment

### State Unemployment Rates

<table>
<thead>
<tr>
<th>State</th>
<th>March 2012</th>
<th>April 2012 (p)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>8.8%</td>
<td>8.7%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Michigan</td>
<td>8.5%</td>
<td>8.3%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Indiana</td>
<td>8.2%</td>
<td>7.9%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Employment (% change)</th>
<th>Unemployment Rate (%)</th>
<th>Personal Income (% change, nom.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MA</td>
<td>REAL</td>
<td>MA</td>
</tr>
<tr>
<td>2013</td>
<td>1.8</td>
<td>0.3</td>
<td>7.1</td>
</tr>
<tr>
<td>2014</td>
<td>2.1</td>
<td>0.3</td>
<td>5.4</td>
</tr>
<tr>
<td>2015</td>
<td>1.4</td>
<td>0.6</td>
<td>4.9</td>
</tr>
<tr>
<td>2016</td>
<td>0.0</td>
<td>0.7</td>
<td>5.1</td>
</tr>
<tr>
<td>2017</td>
<td>-0.2</td>
<td>0.7</td>
<td>5.2</td>
</tr>
<tr>
<td>2018</td>
<td>-0.1</td>
<td>0.8</td>
<td>5.3</td>
</tr>
<tr>
<td>2019</td>
<td>0.0</td>
<td>0.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

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

April 2012: -$3.6 Billion (Gen. Funds)

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

**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/682BqHPY8)
[http://www.webcitation.org/682CjiDge](http://www.webcitation.org/682CjiDge)
Chicago Tribune: [http://www.webcitation.org/682BxkzTs](http://www.webcitation.org/682BxkzTs)
PENSIONS
ILLINOIS’ BOND RATING

**ILLINOIS’ G.O. BOND RATINGS**

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
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<tbody>
<tr>
<td>2012</td>
<td>A+ (neg.)</td>
<td>A2 (stable)</td>
<td>A (stable)</td>
</tr>
</tbody>
</table>

- 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.”

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