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# **Consequences of Illinois' 2015-2017 Budget Impasse and Fiscal Outlook**

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## **Introduction**

This article explores the state's two-year budget impasse, which ended in 2017, some of the effects on state services, and, in particular, impacts on organizations serving the state's most vulnerable populations. It comprises three sections that include: (1) background on the impasse and some historical perspective; (2) the impacts on social services and some of the state's most vulnerable populations; and (3) a look to the future. While a budget agreement was reached for the current fiscal year, the state's recovery is tenuous, with many programs and initiatives damaged badly due to the impasse, and many more unable to sustain another protracted budget stalemate. Illinois carries a significant bill backlog, which will need to be addressed to overcome systematic budget deficits.

### **I. Background and historical facts**

The impasse that left Illinois without a fully appropriated budget for more than two years was the longest standstill of its kind in the state's history. Beginning July 1, 2015, for 736 days, Illinois was without a complete budget, yet still made various payments as required by court orders, consent decrees and continuing appropriations. However, without a complete budget, many state commitments—mostly payments for social service programs, higher education, agency operations and state employee health insurance payments—remained insufficiently appropriated, creating uncertainty in payments for many reliant on state support.

The impasse followed a partial roll-back in Illinois' income tax rates on January 1, 2015 that reduced annual state income tax revenues by more than \$4.5 billion between fiscal year 2014 and fiscal year 2016.<sup>1</sup> Illinois did not adequately control state spending at the same time revenues dropped, translating into a situation in which the state was increasingly unable to make timely payments to vendors. By the end of fiscal year 2017, Illinois' backlog of bills reached an estimated \$14.71 billion, a three-fold increase from the end of fiscal year 2015.

There is no distinct origin for Illinois' ongoing financial difficulties. A multitude of issues, including underfunding of state pension obligations, deficit spending, and a record bill backlog, have contributed to state financial pressures in the past. News organizations have pointed to changes in pension funding in 2005 and 2006 as well as the 1995 "Pension Ramp" and funding plan, which created a spike in pension costs as a percentage of total General Funds in the 2010s—from 4.8 percent in 2011 to 22.5 percent in 2015.<sup>2,3</sup> The Civic Federation, a government research organization, agrees, listing the pension ramp, the 2002 early retirement initiative costs, and historical underfunding and investment losses to the pension systems, as contributors to the state's fiscal challenges.<sup>4</sup>

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<sup>1</sup> [Fiscal Year 2018 Budget Summary](#), Commission on Government Forecasting and Accountability.

<sup>2</sup> McKinney, Dave. "[The Illinois Pension Disaster](#)," Crain's Chicago Business 8/10/15.

<sup>3</sup> Jason Grotto and Ray Long. "[Digging a Pension Hole](#)," The Chicago Tribune, 12/15/11.

<sup>4</sup> "[The State of Illinois Retirement Systems: Funding History and Reform Proposals](#)," Civic Federation 10/26/16.

Some of the state's bedrock financial pressures have even older roots. Researchers have cited pension system underfunding in the 1950s and 1960s, the 1917 Illinois Pension Laws Commission, and even the state's only period of sovereign default in 1842 as origin points for Illinois' chronic financial woes.<sup>5,6,7</sup>

The current crisis, however, has two more recent contributing causes, beginning with the expiration of a temporary income tax increase in January 2015. In January 2011, with the intent to address Illinois' structural deficit and an unpaid bill backlog in danger of rising past \$10 billion following the 2008 Great Recession, the personal income tax rate increased from 3 percent to 5 percent and the corporate income tax rate increased from 4.8 percent to 7 percent.<sup>8,9</sup> However, the enacted rate changes were only temporary, with a partial step down in the rates scheduled for 2015 and another step down in 2025.

While the state's estimated bill backlog declined from roughly \$9.1 billion in early December 2010 to about \$5.03 billion at the end of fiscal year 2015, the decline after 2011 was uneven, with several increases and decreases within the four-and-a-half-year period.<sup>10</sup> In general, however, the state's bill backlog moved downward following the revenue changes that were enacted in 2011.

By the time Gov. Bruce Rauner took office on January 12, 2015, the individual and corporate income tax rates had dropped, creating a \$6.2 billion pressure point in the fiscal year 2016 budget that would need to be addressed through programmatic cuts, new revenue or a combination of both.<sup>11</sup> On February 18, 2015, Gov. Rauner published his first budget proposal, which included a projected reduction of \$2.2 billion in pension costs through benefit reductions, \$655 million through changes to the state group health insurance program via collective bargaining, and \$400 million in Medicaid cutbacks. Independent analysis determined the governor's proposed revenue changes were too optimistic and not likely to be achievable in fiscal year 2016, making the governor's recommended budget billions of dollars out of balance.<sup>12, 13</sup>

With no discernable progress made on passing a bipartisan budget, legislative leadership introduced a series of budget bills on May 26, 2015.<sup>14</sup> Gov. Rauner stated publicly he was against the proposed budget, but was open to negotiations, contingent on a reform package called the "Turnaround Agenda," portions of which were introduced by legislators five days earlier.<sup>15</sup>

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<sup>5</sup> Following decades of under-appropriating the state's pension funds a Pension Clause (Article 13, Section 5) was adopted by the 1970 Illinois Constitutional Convention to ensure the state was bound to meet agreed to pension obligations.

<sup>6</sup> Madiar, Eric. "[Illinois Public Pension Reform: What's Past is Prologue.](#)" IIT Chicago-Kent School of Law and The University of Illinois School of Labor and Employment, Vol 31 Issue 3 – Summer 2014.

<sup>7</sup> Wallis, John Joseph et al. "[Land, Debt, Taxes: Origins of the U.S. State Default Crisis, 1839 to 1842.](#)" Federal Reserve Bank of Atlanta, 2011.

<sup>8</sup> [\(35 ILCS 5/201\) \(from Ch. 120, par. 2-201\)](#)

<sup>9</sup> McDermott, Kevin. "[Pat Quinn Signs Big Tax Increase.](#)" St. Louis Post-Dispatch 1/14/11.

<sup>10</sup> The temporary income tax increase contributed to a stabilization of the state's bill backlog, while additional fiscal events, such as issuing bonds backed by funds the state receives under a 1998 tobacco lawsuit settlement, contributed to the backlog's decline.

<sup>11</sup> "[State of Illinois Recommended Operating and Capital Budgets.](#)" Chicago Civic Federation, 5/7/15. – ultimately Illinois saw a reduction of \$6.119 billion in General Funds revenues between fiscal years 2015 and 2016.

<sup>12</sup> [Fiscal Year 2016 Recommended Operating Budget Book](#), 2/18/15.

<sup>13</sup> "[State of Illinois FY2016 Recommended Operating and Capital Budgets: Analysis and Recommendations.](#)" Chicago Civic Federation, 5/7/15

<sup>14</sup> [HB 4146, HB 4147, HB 4148, HB 4151, HB 4153, HB 4154, HB 4158, HB 4159, HB 4160, HB 4165, SB 2029, SB 2030, SB 2031, SB 2032, SB 2033, SB 2034, SB 2035, SB 2036, SB 2037, introduced into the 99<sup>th</sup> Illinois General Assembly 5/26/2015.](#)

<sup>15</sup> Garcia, Monique, Kim Geiger and Jessie Hellmann. "[Rauner puts parts of agenda into bill form.](#)" Chicago Tribune, 5/21/15.

On June 25, 2015, Gov. Rauner vetoed the Legislature’s fiscal year 2016 budget, citing concerns that expenditures exceeded revenues in the proposal.<sup>16</sup> Five days later, Illinois moved into a two-year period of budgetary uncertainty and instability, with much of the payment authority determined by consent decrees, court orders, and continuing appropriations without a fully appropriated state budget.

Illinois governors are not permitted by law to include new revenues within their budget proposal. As such, in times of fiscal difficulty Illinois governors have relied often on unspecified or inflated savings measures. This was the case with Gov. Rauner’s fiscal 2017 and 2018 budget proposals, which relied on several large unspecified or undetailed savings lines. In the governor’s fiscal year 2017 proposal, \$3.526 billion in savings was listed through “Working Together or Executive Management.”<sup>17</sup> For fiscal year 2018, he cited \$4.572 billion in savings from “Working Together on Grand Bargain”—a compromise budget that reportedly failed due to the governor’s intervention.<sup>18,19</sup>

Negotiations between the governor and legislature may have resulted in a budget with revenue increases sooner had Gov. Rauner not stated that his willingness to work on a budget depended on passing components of his “Turnaround Agenda.” While this agenda would be repeatedly modified, the core proposals centered on the elimination of collective bargaining rights, cuts to workers’ compensation rates, a property tax freeze, and a proposal to cut the state’s pension costs.<sup>20</sup> Although pieces of this agenda were introduced, debated, and voted upon, none of these proposals (other than limited changes to pensions) were enacted, and the governor continued to oppose budgets passed by the legislature.<sup>21</sup>

Portions of Illinois’ budget were appropriated during the impasse, including amounts for elementary and secondary education, some federal funds, transportation construction projects, limited state agency operations, and higher education and social services in fiscal year 2017’s agreed “bridge” funding plan.<sup>22</sup> However, Illinois did not have a fully appropriated budget until the General Assembly overrode the governor’s veto on a series of fiscal year 2018 spending and revenue bills on July 6, 2017—the revenue components of which raised personal income tax and corporate income tax rates to 4.95 and 7 percent respectively. The last component—state funding reforms for elementary and high schools—was signed into law on August 31, 2017, officially ending the more than two-year budget impasse.<sup>23</sup>

Although appropriations for some areas of government were officially stalled due to the continuing budget debate, many state agencies continued to commit the state to spending during the impasse period. Even with the passage of a fiscal year 2018 budget, state agencies estimated a shortfall of \$2.5 billion in appropriations to clear out the remaining liabilities incurred. The majority of this gap is for state employee group health insurance costs, but also for agencies such as the Department

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<sup>16</sup> [Governor Bruce Rauner’s Veto Message on HB4146](#), 6/25/15.

<sup>17</sup> [Fiscal Year 2017 Recommended Operating Budget Book](#), 2/17/2016

<sup>18</sup> [Fiscal Year 2018 Recommended Operating Budget Book](#), 2/15/2017

<sup>19</sup> Vinicky, Amanda. “‘Grand Bargain’ on Budget Hits Grand Thud.” WTTW, 3/1/17.

<sup>20</sup> “[Illinois Turnaround Agenda](#),” Office of the Illinois Governor, 6/1/15.

<sup>21</sup> [Public Act 100-0023](#) included pension funding changes and created a Tier 3 pension plan for certain employees.

<sup>22</sup> [Public Act 99-0524 \(Appropriation Legislation for “Bridge” Funding\)](#).

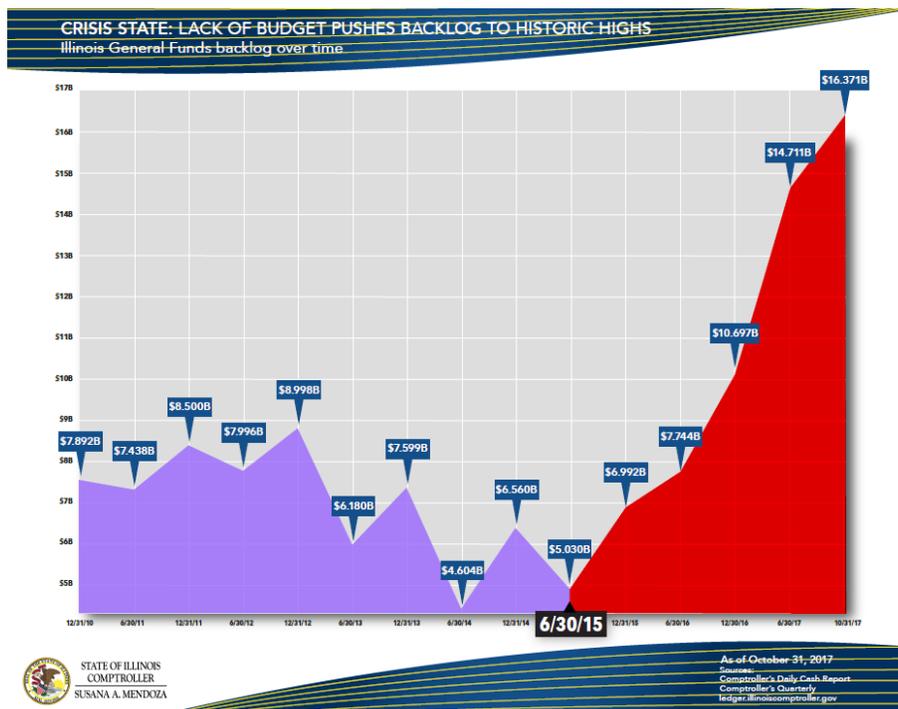
<sup>23</sup> [Public Act 100-0465](#).

of Corrections (\$420 million) and the Department of Human Services (\$98 million).<sup>24</sup> Some of these shortfalls would later be addressed in the fiscal year 2019 budget passage, which included fiscal year 2018 supplemental appropriations.

Ultimately, the delay in addressing the state’s large structural deficit during the impasse would have a significant impact on the state’s finances, growing Illinois’ bill backlog threefold to more than \$15 billion by the time the fiscal year 2018 budget was enacted.

During the impasse, Illinois’ general obligation bond rating was downgraded a combined eight times by Moody’s Investors Service, Fitch Ratings, and S&P Global Ratings.<sup>25</sup> By June 2017, the state faced the possibility of having its general obligation bond rating downgraded to non-investment grade, or “junk,” status, which would have made Illinois the first state with this distinction.

Meanwhile, Illinois’ bill backlog continued to grow, with much of it accruing interest at between 9 percent and 12 percent annually. The bill backlog topped an estimated \$16.7 billion by the time the state refinanced a sizable portion of debt through a \$6 billion general obligation bond offering in November 2017. While the refinancing saved the state billions of dollars in future late payment interest penalties, the new debt, coupled with the state’s low bond rating (just one notch higher than ‘speculative’ for two ratings agencies and two notches higher for the third agency), threatens to curb Illinois’ borrowing ability for the foreseeable future.



<sup>24</sup> [Debt Transparency Report No. 4](#), for the period ending March 31, 2018, Office of the Illinois Comptroller, 4/20/18.

<sup>25</sup> During the impasse Illinois was downgraded by Moody’s Investors Service three times, S&P Global Ratings three times and Fitch Ratings twice. Moody’s and S&P both downgraded Illinois to one step before speculative grade before the impasse ended—while Fitch’s final downgrade during the impasse placed Illinois two steps above speculative.

The budget impasse not only had an impact on the state's balance sheet, but also established a series of social and economic consequences that will affect Illinois for years to come. Ultimately, the budget impasse inflicted structural damage on the state's finances, social service infrastructure and higher education system, which is only now slowly being addressed through the implementation of the fiscal year 2018 and 2019 budgets.

## **II. Impacts on critical service providers**

During the budget impasse, providers of state goods and services suffered from non-payment of outstanding state bills. A limited number of state vendors could receive a portion of their late state-owned accounts receivables through debt sale programs, run by Illinois' Central Management Services.<sup>26</sup> These voluntary programs—called the Vendor Payment Program and the Vendor Support Initiative—were designed to expedite the time frame of payments to state vendors and service providers, in exchange for forfeiting late payment interest penalties to third-party lenders. Participation in these programs was extensive—when Illinois refinanced a portion of state debt in November, more than \$2.3 billion in backlogged bills was paid to third-party entities that had purchased late accounts receivable during the impasse, with more still being held at the agency level.

These debt purchasers make profits through these delayed accounts receivable on the late payment interest penalties, accruing at a rate of 12 percent annually for prompt payment vouchers.<sup>27</sup> The amount of late payment interest penalties accrued during the impasse is staggering. Between fiscal years 1998 and 2015, vouchered late payment interest penalties totaled \$1.04 billion.<sup>28</sup>

During the impasse (fiscal years 2016 through three-fourths of fiscal year 2018) vouchers totaling \$841.5 million in late payment interest penalties had been sent to the Comptroller's office for payment. Additionally, by March 31, 2018, state agencies estimated pending interest liabilities of \$298.1 million, bringing the estimated cost of late payment interest penalties linked to the impasse period to roughly \$1.14 billion—or \$100 million more than the previous 18 years combined.

Although well-capitalized lenders benefited from these debt sale programs, the cost of interest penalties come at the expense of state expenditure on normal state programs and vendor contracts.

State vendors unable to benefit from vendor assistance programs included vendors of programs that contribute to the state's social service safety net, such as some Medicaid providers, human services grant recipients, the Community Care Program and other programs administered by the Illinois Department on Aging.<sup>29</sup> For example, the Chicago Coalition for the Homeless found that 90 percent of homeless service providers were forced to limit their intake of new clients, reduce services for current clients, lay off staff, eliminate programs, and/or close work sites due to the impasse. Additionally, the Chicago Foundation for Women reported that during the impasse, with

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<sup>26</sup> [Illinois Department of Central Management Services, Vendor Payment Program and Vendor Support Initiative.](#)

<sup>27</sup> For state vouchers related to the [Illinois Prompt Payment Act](#), if a payment is not made to a vendor within 90 days of receipt of a proper invoice, an interest penalty of 1% of any unpaid amount will accrue for each month or, on a prorated basis, each fraction thereof that such payment is delayed after such 90-day period.

<sup>28</sup> [Special Report on Late Payment Interest Penalties, Office of the Illinois State Comptroller](#), 4/23/18.

<sup>29</sup> The [Community Care Program \(CCP\)](#) is a social services program established in 1979 that provides home and community-based care to seniors to enable them to stay at home in lieu of nursing home-type services.

limited funds going toward domestic violence shelters and prevention services, more than 3,600 adults and 4,200 children seeking shelter were turned away.<sup>30</sup>

It is important to recognize that passing a fully appropriated budget for fiscal year 2018 and 2019 does not immediately repair the damage to Illinois' social service safety net. A February 2017 study by Illinois Action for Children found that the Child Care Assistance Program, which provides low-income families with access to affordable and quality child care, still had a 30,000 child deficit from its enrollment peak, even after the program eligibility was partially restored from 2015 eligibility threshold cuts. This deficit represented more than 19 percent of the pre-cut program population.<sup>31</sup>

A July 2017 Chicago Foundation for Women report compiled survey data from multiple reports to highlight the impact the budget impasse had on social services.<sup>32</sup> The report referred to the general negligence toward the state's most vulnerable populations—low-income Illinoisans, women, people of color and immigrants—during the impasse. By not adequately funding the programs serving these populations, the state was placing vulnerable Illinoisans at an even greater risk.

During the impasse, multiple social service non-profits that rely on state funds closed. The Mahonely Transitional Living facility, which sheltered homeless youth in Hardin County in southern Illinois, closed in February 2016, after only one year in operation.<sup>33</sup>

The supervising director at the time of the shelter's closure stated, "I think it's really upsetting that we signed a contract with the state of Illinois. We've done our part from July 1 of this fiscal year until now. But, unfortunately, we just can't go on without the funds being sent to our agency to help pay for the cost of the staff."

Also in 2016, the Haymarket Center, which serves adults in the Chicago area suffering from substance abuse, announced the closure of its social setting detoxification program.<sup>34</sup> The 40-year-old program had more than 1,000 admissions in fiscal year 2015.

In April 2017, after one month of public uncertainty, the Wells Center, a drug and alcohol treatment center in Jacksonville, announced it would be closing due to cash flow issues stemming from the state's budget impasse.<sup>35</sup> The Wells Center, open since 1968, had annually serviced 500 people struggling with addiction.

Although it is difficult to know the exact number of social service non-profits that closed as a direct result of the budget impasse, state investment in non-profits drastically declined due to the lack of state budgets (i.e., the failure to appropriate funds). Grant contracts for tax-exempt

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<sup>30</sup> Grigsby, S. Mayumi, Christine George, and Gina Spitz. "[Damage Done: The Impact of the Illinois Budget Stalemate on Women and Children.](#)" Chicago Foundation for Women, July 2017. Page 3.

<sup>31</sup> "[Policy Brief: Loss of Child Care Due to 2015 Cuts Limits Parents Pursuits of Education and Training.](#)" Illinois Action for Children, February 2017.

<sup>32</sup> Grigsby, S. Mayumi, Christine George, and Gina Spitz. "[Damage Done: The Impact of the Illinois Budget Stalemate on Women and Children.](#)" Chicago Foundation for Women, July 2017.

<sup>33</sup> Fuller, Leanne. "[Homeless shelter for children closes its doors.](#)" WPSD NBC, 2/22/16.

<sup>34</sup> Miller, Rich. "[Another hostage dies.](#)" CapitolFax.com, 1/29/16.

<sup>35</sup> Draper, Nick. "[Drug, alcohol treatment center closing.](#)" Jacksonville Journal Courier, 4/21/17.

organizations decreased from 6,333 in fiscal year 2015 to 3,916 in fiscal year 2016—a drop of just over 38 percent.

Programs that directly benefited vulnerable Illinois populations were irrevocably damaged during the budget impasse. Further, the state de-emphasized investments made through the entire social services safety net, which adversely affected Illinois not only through a reduction in needed services, but in lost economic development.

Many of the programs and institutions that suffered greatest during the impasse were ones that, when funded, provided positive economic return on investment. For instance, evidence based substance use and mental health treatment have a roughly 3.77 multiplier in economic activity, meaning that for every marginal dollar spent on a domestic evidence-based substance use and mental health treatment, \$3.77 is added in economic benefit.<sup>36</sup>

These positive multipliers hold true for funding several social service early intervention programs, such as substance abuse treatments, behavioral health services and homelessness intervention, because the alternatives to early intervention are costlier (e.g. health and criminal justice spending and a decrease in individual productive work days for people in need of services). The largest positive public spending multipliers are those that produce the greatest long-term individual impact and return the most direct capital to the community.

For Illinois, these large multipliers tend to be spending on public universities, which can vary based on the university in question. In 2015, the Illinois public university presidents cited a roughly 4:1 ratio in economic impact to state spending (\$28 billion in impact to \$6.9 billion in spending) for the entire public university system.<sup>37, 38</sup>

## **Higher Education**

In recent history, Illinois' support for higher education has shown little growth and in fact has lagged far behind inflation. In fiscal year 1990 the state spent \$1,098,493,200 on public four-year universities and \$1,612,927,700 on higher education overall.<sup>39</sup> By fiscal year 2015, the state was spending \$1,201,776,600 on public four-year universities and \$1,947,639,900 on higher education overall.<sup>40</sup> If the 1990 higher education spending had been simply increased with inflation, the expected expenditure in fiscal year 2015 would be roughly 1.5 times what was actually appropriated.

Following years of limited increases or cuts in state support, the impasse affected public universities, community colleges and need-based scholarship programs associated with higher education dramatically. In fiscal year 2016, without a fully appropriated budget, state spending on four-year public universities fell by 70.77 percent.<sup>41</sup> Although a stopgap budget for higher

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<sup>36</sup> Rynell, A., Terpstra, A., Carrow, L., & Mobley, I. (2011, May). *The Social and Economic Value of Human Services*. Chicago: Social IMPACT Research Center.

<sup>37</sup> \$6.9 billion in University System Spending includes both state spending as well as federal government transfers, local government revenue, and additional university generated revenue.

<sup>38</sup> Illinois Public University President's Letter to Governor and Legislative Leaders, Oct. 1, 2015

<sup>39</sup> "Overall higher education" does not include retirement costs.

<sup>40</sup> "Fiscal Affairs and Budgeting." Illinois Board of Higher Education.

<sup>41</sup> "Higher Education Funding Shortfall Persists Despite New Budget." Chicago Civic Federation, 7/18/17.

education was enacted for fiscal year 2017, and an annual appropriation was provided in the fiscal year 2018 budget, state support for higher education programs is still well below fiscal year 2015 levels.<sup>42</sup>

Despite the fiscal year 2018 budget funding, the long-term impacts of the massive cuts to higher education spending in fiscal year 2016 are far reaching.

The major credit ratings agencies downgraded multiple public universities' debt during the impasse, with some falling below investment grade, which threatened university accreditation.<sup>43</sup>

<sup>44</sup> As a result of the impasse, public universities and community colleges enrolled 72,196 fewer students, cut 7,490 jobs, and the state lost roughly \$948.7 million in generated economic output—\$461.7 million of which was felt outside the Chicagoland area.<sup>45</sup>

Low-income students suffered inordinately under the budget impasse. The Monetary Award Program (MAP), which is a state-administered college tuition grant program designed to benefit low-income students, experienced a decrease in funding from \$364.1 million to \$169.8 million between fiscal year 2015 and 2016, a 53.36 percent cut.<sup>46, 47</sup> In a July 2016 survey conducted by the Illinois Student Assistance Commission, which received more than 10,000 responses from current MAP grant students, one in seven students receiving MAP grants stated they would drop out of school or have extreme difficulty finishing if MAP grants were not funded.<sup>48</sup>

While there was a stopgap budget in fiscal year 2017 and an annual appropriation for fiscal years 2018 and 2019, the uncertainty and delays in MAP funding in fiscal year 2016 and fiscal year 2017 put needless pressure on low-income students in Illinois—with the number of MAP grants awarded continuing to lag pre-impasse levels to this day.<sup>49, 50</sup>

The impasse starved many of Illinois' institutions for higher learning in a dramatic way, and the state still has a long path ahead before it adequately funds higher education.

### **III. Looking ahead**

At a foundational fiscal level, the most obvious cost of the impasse was an increase in debt service payments that resulted from a more than tripling of the bill backlog. The fiscal year 2018 budget included \$6 billion in general obligation bonding authority to pay down of a portion of the backlogged debt.

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<sup>42</sup> [Illinois Board of Higher Education Fiscal Year 2019 Budget Recommendations](#), 2/6/18.

<sup>43</sup> ["S&P Downgrades Six Illinois Universities' Credit Ratings."](#) Reuters, 4/20/17.

<sup>44</sup> Parker, Molly. ["Budget impasse could have 'accreditation consequences' for Illinois colleges and universities."](#) The Southern, 6/27/17.

<sup>45</sup> Manzo IV, Frank and Robert Bruno. ["Higher-Impact Higher Education: Understanding the Costs of the Recent Budget Impasse in Illinois."](#) Illinois Economic Policy Institute, 9/6/17.

<sup>46</sup> In 2017, MAP grants were restored, retroactively appropriating for the decrease in 2016. However, downstream impacts to the uncertainty of the program in 2016 were still felt.

<sup>47</sup> ISAC reported in 2017 that 54 percent of MAP recipients were at such a low income that the federal government categorized them as not being able to contribute any personal resources to pay for college. (Monetary Award Grant ["MAP Facts,"](#) Illinois Student Assistance Program)

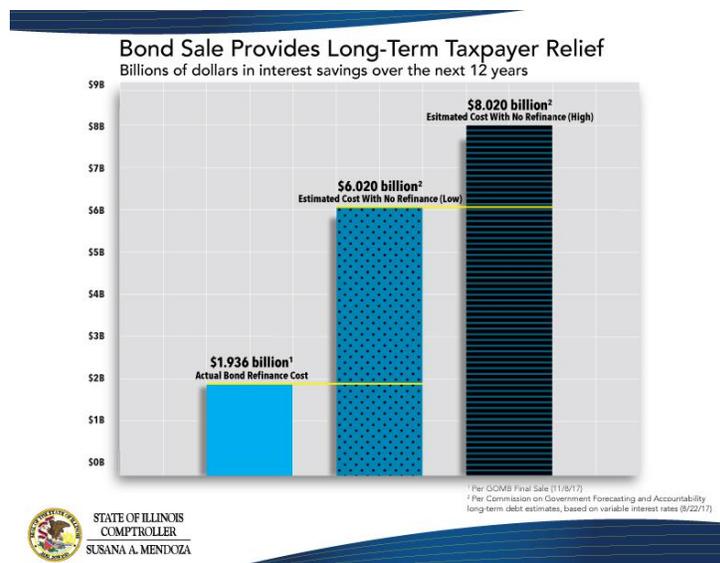
<sup>48</sup> Rhodes, Dusty. ["MAP Grant Uncertainty Leads Some Students To Change Plans."](#) National Public Radio Illinois, 7/6/16.

<sup>49</sup> Bothwell, Ellie. ["Public universities 'collateral damage' of Illinois budget stalemate."](#) The World University Rankings, 5/10/17.

<sup>50</sup> [Monetary Award Program Historical Awards and Payout Summary](#), 2017 ISAC Data Book.

With much of Illinois’ debt accruing between 9 percent and 12 percent annually in late-payment interest penalties, the bond offering refinanced a portion of the backlog at a more manageable interest rate, but became obligated debt that will not fully be paid off until 2030. In interest alone, Illinois will pay \$1.936 billion on this new general obligation debt.

However, the new debt service interest payments are far lower than the estimated cost of not refinancing any portion of the backlog—a 12-year estimated cost of between \$6.02 billion and \$8.02 billion.<sup>51</sup>



The bond sale resulted in \$6.482 billion in funds available for backlog repayment, with the additional \$482 million coming in premium. The Office of the Comptroller utilized federal matching funds to pay nearly \$8.8 billion in backlogged bills.

Even with the large pay down, Illinois’ bill backlog remains well above pre-impasse levels.

Additionally, because of the impasse, Illinois has been unable to right its fiscal house during a period of national economic growth. Since 2014, national real gross domestic product for the United States has seen positive percentage changes from quarter-to-quarter, with a 19.6 percent increase overall since the recessionary trough of 2009-Q2.<sup>52</sup> For Illinois specifically, gross state product per capita has steadily risen since the Great Recession, climbing from \$49,858.80 in 2009 to \$61,672.24 in 2016.<sup>53</sup>

Since the recession, many states have worked to rebuild their rainy-day funds and strengthen their total balances. Since fiscal year 2011, the median days a state could run on only rainy-day funds increased from 5.1 to 19.8 days.<sup>54</sup> Although rising slightly before the impasse, the number of days Illinois could run on only rainy-day funds over the same period failed to rise above 3.7, with a fiscal year 2017 number of 0.1 days.

<sup>51</sup> “Letter in Response to August 8, 2017, Request on Bonding Impact,” Commission on Government Forecasting and Accountability, 8/22/17.

<sup>52</sup> Federal Reserve Bank of St. Louis: FRED Dataset.

<sup>53</sup> Gross Domestic Product Per Capita for Illinois, 2000 to 2016, Federal Reserve Bank of St. Louis, FRED dataset.

<sup>54</sup> “Fiscal 50: State Trends and Analysis,” Pew Charitable Trust, 11/7/17.

Population loss continues to be an issue in Illinois. Net domestic outward migration from Illinois continues to drop since its fiscal year 2013 mark of minus-67,313 to minus-114,144 in fiscal year 2016.<sup>55</sup> In 2017, the U.S. Census estimated Illinois was no longer the fifth largest state in the United States.<sup>56</sup> Continued population decline will put more pressure on Illinois' remaining tax base and make raising future revenue difficult.

### **Constraints on Capital Investment**

Illinois' infrastructure system is one of the key foundations of its economic strength. Failure to pass a complete budget for two fiscal years put more stress on the state's underinvested infrastructure system and will make catch-up spending costlier. In 2012, a national task force focusing on the long-term fiscal stability of several states concluded that over the next 30 years, Illinois would need to invest \$340 billion into infrastructure.<sup>57</sup> A September 2015 report by the Institute of Government and Public Affairs at the University of Illinois analyzed this report and projected a year-to-year infrastructure spending need of between \$4.2 billion and \$8.4 billion annually for the next 28 years to bring Illinois' infrastructure system into good repair.<sup>58</sup>

In 2018, the Illinois Chamber of Commerce and a Washington D.C. based transportation research nonprofit named TRIP conducted an efficiency review of Illinois' transportation system.<sup>59</sup> The study found that only 54 percent of Illinois roads were in "good" condition, while 27 percent were listed as "poor." Additionally, 9 percent of Illinois' bridges were "structurally deficient," which is 26,770 bridges in total. The study concluded that the current disrepair of the state's transportation system was costing Illinois drivers \$16.4 billion annually.<sup>60</sup>

While transportation projects were authorized throughout the impasse, the state was unable to work on a broader capital infrastructure program to address the state's many needs. Additionally, the uncertainty at the end of each fiscal year as to the status of capital appropriations delayed many projects. For instance, many transportation projects were halted at the end of the 2017 fiscal year, impacting an estimated \$284 million in ongoing work.<sup>61</sup> However, the larger damage to the state was the failed capital investment during the impasse period.

### **Tenuous Recovery and Fiscal Year 2019**

At the end of the 2015 fiscal year, four states, including Illinois, failed to reach an agreement on a fully appropriated state budget. Pennsylvania took nine months to come to a final agreement, the second longest period of the four states. Pennsylvania Senate Majority Leader Jake Corman stated at the time of the budget's passage, "We all lived through this, and it was difficult to live through, for not just the General Assembly and the Governor, but for the people of Pennsylvania."<sup>62</sup>

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<sup>55</sup> State-to-State Migration Flows, U.S. Census – American Community Survey.

<sup>56</sup> "Illinois loses title of 5<sup>th</sup> largest state to Pennsylvania," WGN Chicago, 12/20/17.

<sup>57</sup> "[Report Shows Illinois Infrastructure Needs Exceed \\$300 Billion.](#)" Chicago Civic Federation, 10/26/12.

<sup>58</sup> Luby, Martin. "[State of Illinois Debt Affordability Report: With Application to Infrastructure Funding Capacity.](#)" Institute of Government and Public Affairs at the University of Illinois, September 2015.

<sup>59</sup> "[Illinois Transportation by the Numbers: Meeting the State's Need for Safe, Smooth and Efficient Mobility.](#)" TRIP and the Illinois Chamber of Commerce, March 2018.

<sup>60</sup> The \$16.4 billion broke down between \$3.5 billion in vehicle operating costs, \$4.7 billion in safety related expenses, and \$8.2 billion in lost productivity and fuel costs as a result of congestion.

<sup>61</sup> "[IDOT says state road projects can resume with new budget.](#)" State Journal Register, 7/7/17.

<sup>62</sup> Langley, Karen. "[Pennsylvania's budget impasse comes to an end.](#)" Pittsburgh Post-Gazette, 3/23/2016.

Illinois' impasse would dwarf Pennsylvania's budget gridlock and span more than two full fiscal years—736 days—impact billions of dollars in stalled programs, and cost over a billion dollars in late payment interest penalties, higher debt service costs and lost investment.

Ultimately, the budget impasse left Illinois ill-prepared for a future national recession. A needless increase in the bill backlog (which remains over \$2 billion more than the pre-impasse amount), an increase in debt service payments to pay down a portion of this backlog that will cost nearly \$2 billion in interest payments over the next 12 years (which would have been \$4 to \$6 billion more costly to Illinois without refinancing), a decrease in higher education and social service investment that has resulted in billions of dollars in lost returns on investment, a decrease in the fiscal safety net for periods of future crisis and an inability to address the billions of dollars in capital investment that the state's aging infrastructure desperately needs all have created a perfect storm of budget carnage that will burden Illinois for years to come.

Furthermore, the impasse delayed the consideration of needed reforms to medical and aging expenditures that are necessary to continue care for Illinois residents without creating larger annual expenses.

It is unclear what the long-term public opinions of the budget impasse will be. A poll conducted by the Paul Simon Public Policy Institute in March 2017 found that only 33 percent of respondents felt that the budget impasse had directly impacted their lives.<sup>63</sup> However, as stated earlier the disproportionate cost of the impasse on the most vulnerable of Illinois' residents, including, for example, those in need of mental health services or low-income students pursuing higher education, was real and lasting.

Low-income Illinoisans, women, immigrants, and minorities were also directly and negatively impacted by the impasse.

Additionally, the impact of the impasse reaches beyond affecting marginalized populations. The impasse blocked state investment in important programs that garner positive returns and caused Illinois to incur large unnecessary financial penalties, which hindered recovery post-Great Recession.

While the damage has been extensive, with a fiscal year 2018 budget that included new revenue and a full fiscal year 2019 budget that included supplemental appropriations, Illinois has finally stabilized its fiscal condition. Pressures, however, remain. As illustrated by Moody's Investors Service, in their October 9, 2017, review of Illinois' backlog bond offering, progress in Illinois means reducing the state's bill backlog and formulating a framework to prevent such a build-up from reoccurring, adopting a realistic long-term plan to fund the state's pension obligations, and enacting fiscal measures that support a sustainable and structural fiscal balance.<sup>64</sup>

As has been noted, Illinois' structural budget issues have not been completely addressed yet, and many key reforms to the state's revenue system and its pension obligations are multifaceted and

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<sup>63</sup> ["Half of Illinoisans Want to Keep Obamacare: Almost 40% Blame the Government for Poverty,"](#) SIU-Carbondale Paul Simon Public Policy Institute, 3/24/17.

<sup>64</sup> Hampton, Edward. ["Moody's Assigns Baa3 to Illinois' Payment Backlog Bonds: Outlook Negative,"](#) Moody's Investment Service, 10/9/17.

may take years to fully implement. However, the state has already cut deeply into its bill backlog through bond sale refinancing—lowering the backlog from a peak of \$16.7 billion to just over \$8 billion today—and a series of legislative reform initiatives including the Debt Transparency Act, the Truth in Hiring Act, budgeting for late payment interest penalties and enshrinement of the Vendor Payment Program into state law signal a willingness by the state legislature to promote transparency in Illinois’ finances.

Challenges, however, remain. The state's backlog of bills, still above \$8 billion, and weak economic growth since the recession will continue to weigh on the state's finances if they remain unaddressed.

Both S&P Global Ratings and Moody’s Investors Service have recently warned the public about Illinois’ precarious fiscal situation. Moody’s, in a September 2018 report, stated that while transparency legislation and a new State Treasurer lending program will help address some issues on the margins of the state’s bill backlog problem, the core issue still needs a solution.<sup>65</sup> Gabe Patek from S&P added that “In the event of a downturn [Illinois] has this combination of reduced budget flexibility because of the high fixed costs, and no budget reserves to cushion the impact.”<sup>66</sup>

Illinois will need to build on its progress in 2017 and 2018 to keep the state moving forward, and state leaders will need to prevent a future similar crisis from occurring through structural reforms; continuing to enact full 12-month budgets will be critical to progress.

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<sup>65</sup> Hampton, Ted. “New Laws Targeting Backlog Will Help Address, But Won’t Solve, Timely Payment Challenges,” Moody’s Investors Service, 9/18/2018.

<sup>66</sup> Mackey, Brian. [“Illinois At ‘Elevated Risk’ In Next Downturn.”](#) NPR Illinois, 9/18/2018.