BUDGET IN BRIEF • FISCAL YEAR 2020

GOVERNOR JB PRITZKER

NOTICE

For Release at 12:00 Noon, Wednesday, February 20, 2019

There is a total embargo on the budget for fiscal year 2020 until 12:00 noon, Wednesday, February 20, 2019. This prohibition includes references to any and all material in this document. There must be no premature release of this document, nor should any of its contents be paraphrased, alluded to, or commented upon in stories prior to 12:00 noon, February 20, 2019.

Alexis Sturm, Director
Governor's Office of Management and Budget

FISCAL YEAR 2020 BUDGET BRIEFING

Governor’s Office of Management and Budget

February 20, 2019

Embargoed until 12:00 Noon, Wednesday, February 20, 2019

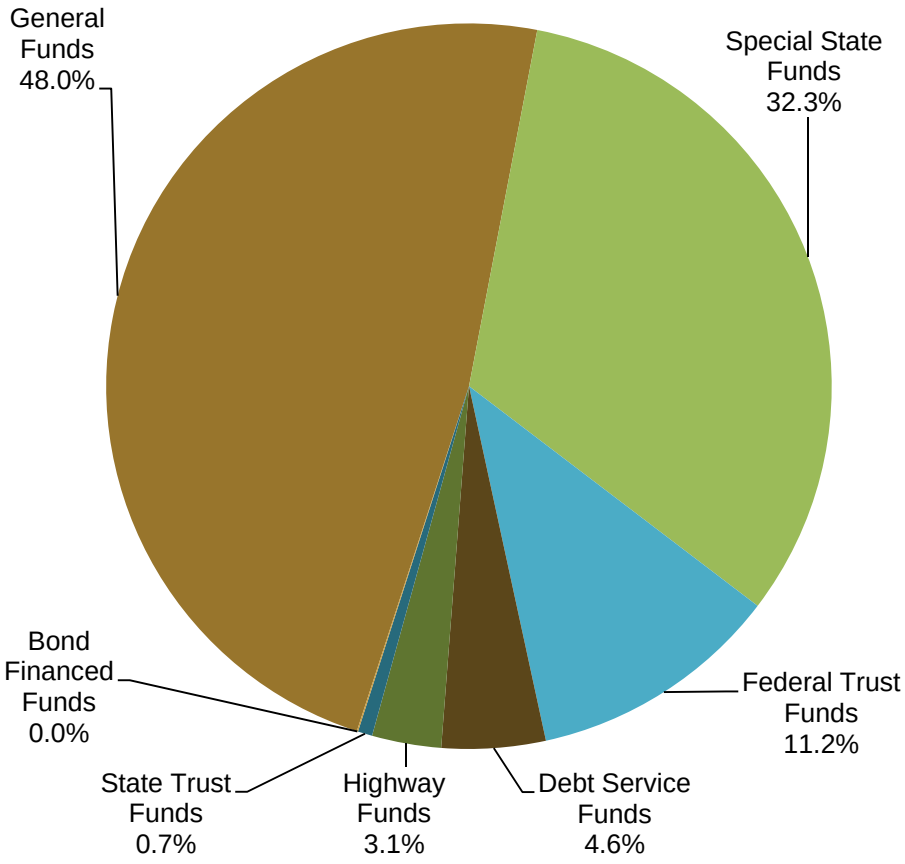
Fiscal Year 2020 Budget – Meeting the Challenges of Illinois' Third Century

The proposed fiscal year 2020 budget lays out a path that begins to restore Illinois over the next few years to a place of fiscal and economic health.

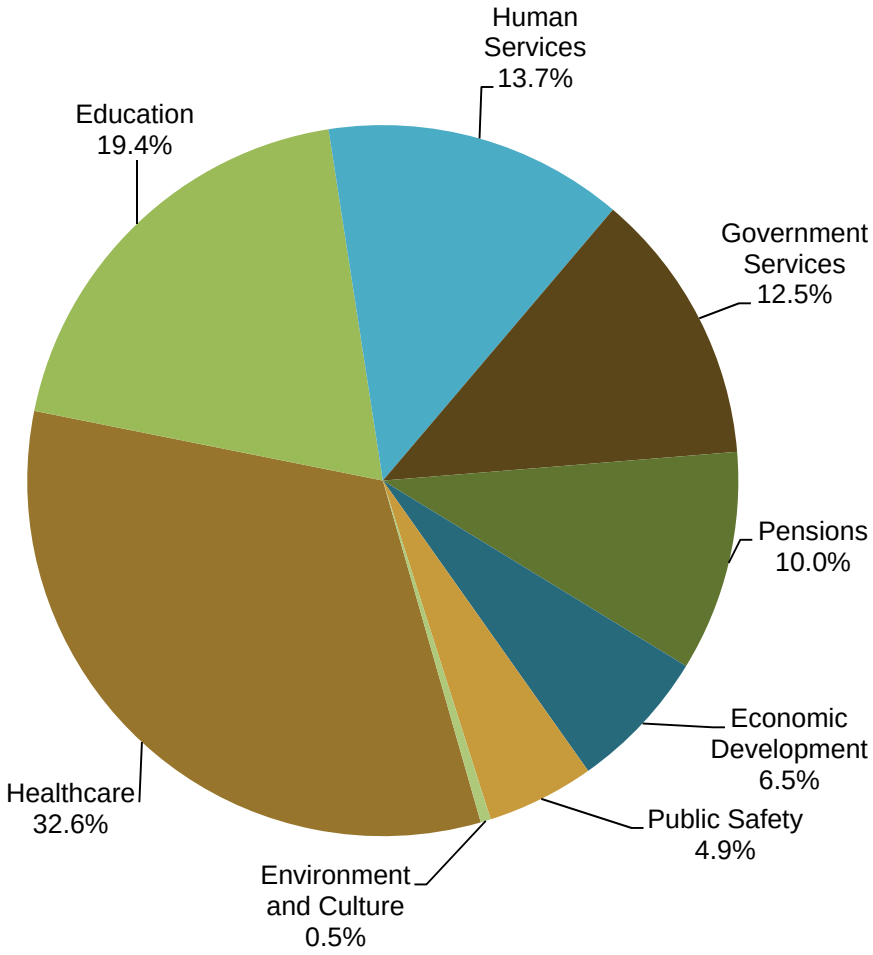
- ✓ Restore Economic and Budgetary Stability
  - ✓ Implement a fair income tax system
  - ✓ Stabilize pension funding
  - ✓ Eliminate structural deficits
- ✓ Create a World Class Education System Accessible to All
  - ✓ Invest in our children from cradle to career
  - ✓ Invest in the higher education infrastructure
- ✓ Strengthen Illinois' Social Safety Network
  - ✓ Assist the state's most vulnerable
- ✓ Reform the Criminal Justice System and Invest in Public Safety
- ✓ Rebuild and Expand Illinois' Infrastructure
  - ✓ We need to do more than just fix what's broken
  - ✓ Invest in roads, facilities and broadband
- ✓ Make Illinois a World Leader/Competitive in a Global Economy

FY2020 All Funds: $77.0 Billion

By Fund Category



By Result Area



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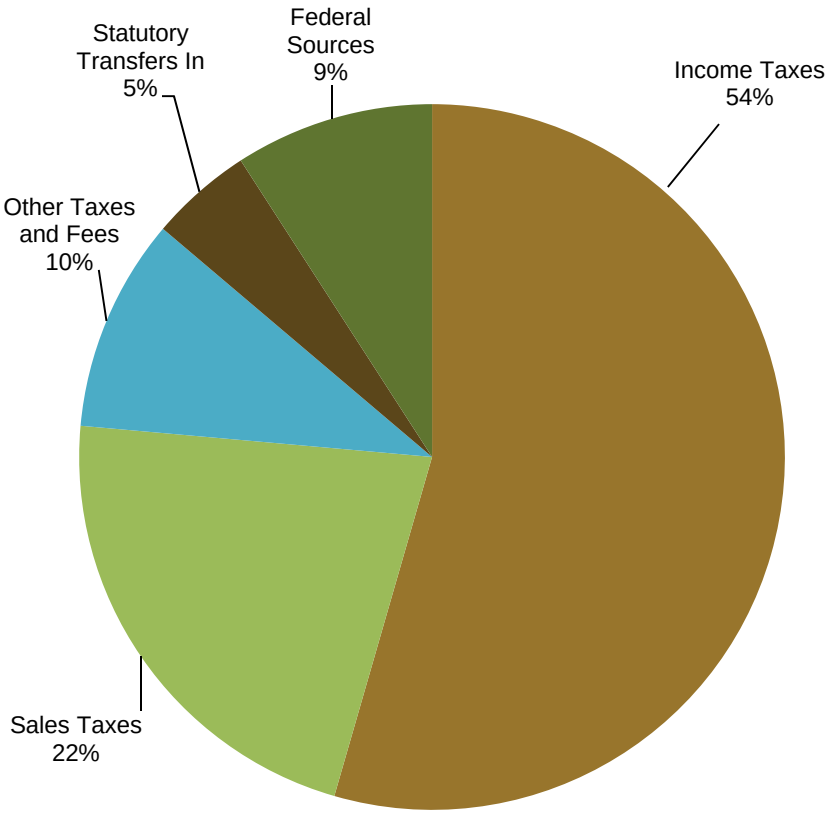
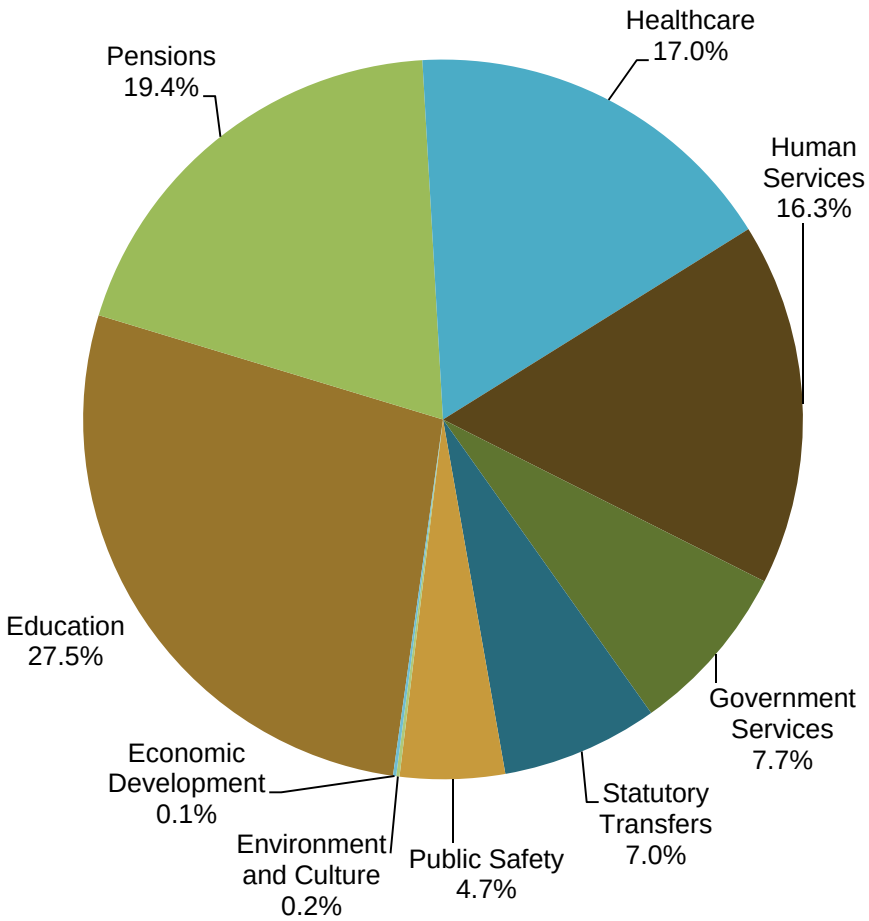
FY2020 General Funds

Revenues: $38.9 billion



Expenditures: $38.75 billion



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FY2020 SPENDING PRIORITIES

Governor Pritzker's FY2020 Spending Priorities

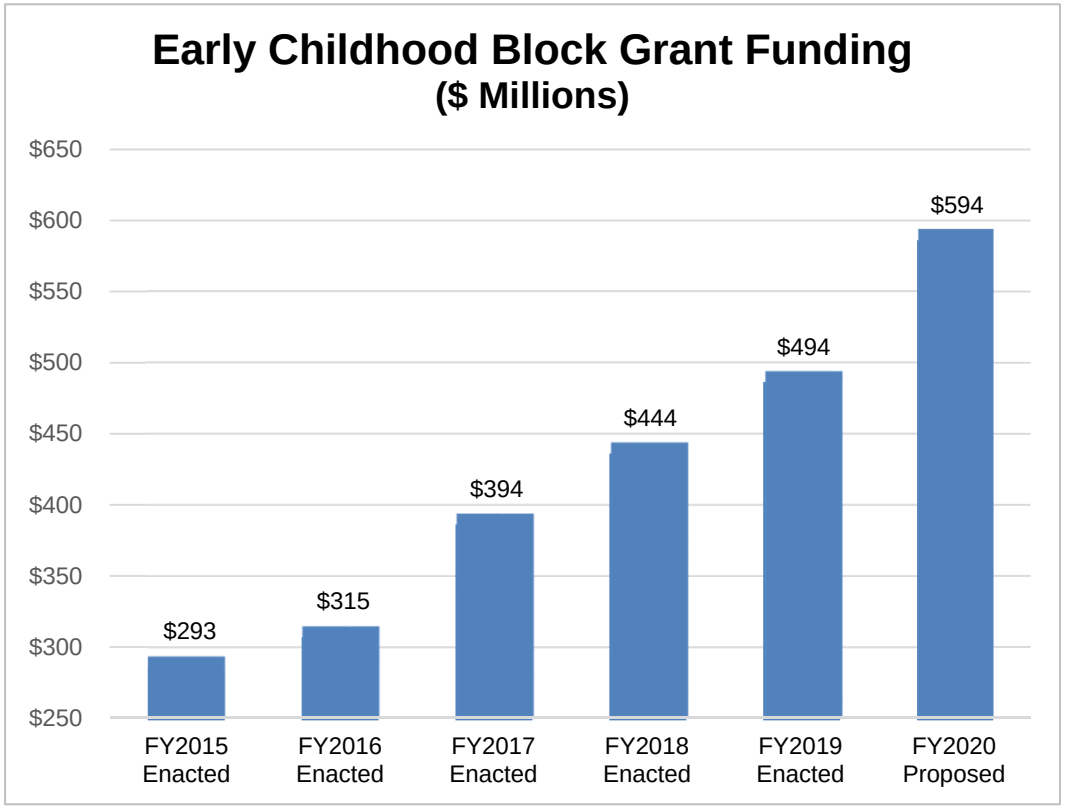
- ✓ Early Childhood Programs (Birth to Age 5)
- ✓ K-12 Education
- ✓ Higher Education
- ✓ Health and Social Services Programs
- ✓ Criminal Justice Reform and Public Safety
- ✓ Infrastructure Investment

Birth Through Five

Investing in Our Children

Helping parents build stronger families, enhancing the learning environment for young children and providing the tools children need to reach their full potential in adulthood

- ✓ Prioritizes Early Childhood Block Grant - **$100 million increase**
- ✓ Expands Child Care Assistance Program to 200 percent Federal Poverty Level (FPL) - **$30 million increase**
- ✓ Increases Early Intervention - **$7 million**
- ✓ Funds Federal Preschool Development Birth through Five Grant - **$3.8 million**



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Cradle to Career

Investing in Our Children

The recommended fiscal year 2020 budget is setting Illinois on the right path to achieve a system that adequately funds and equitably serves every child in Illinois.

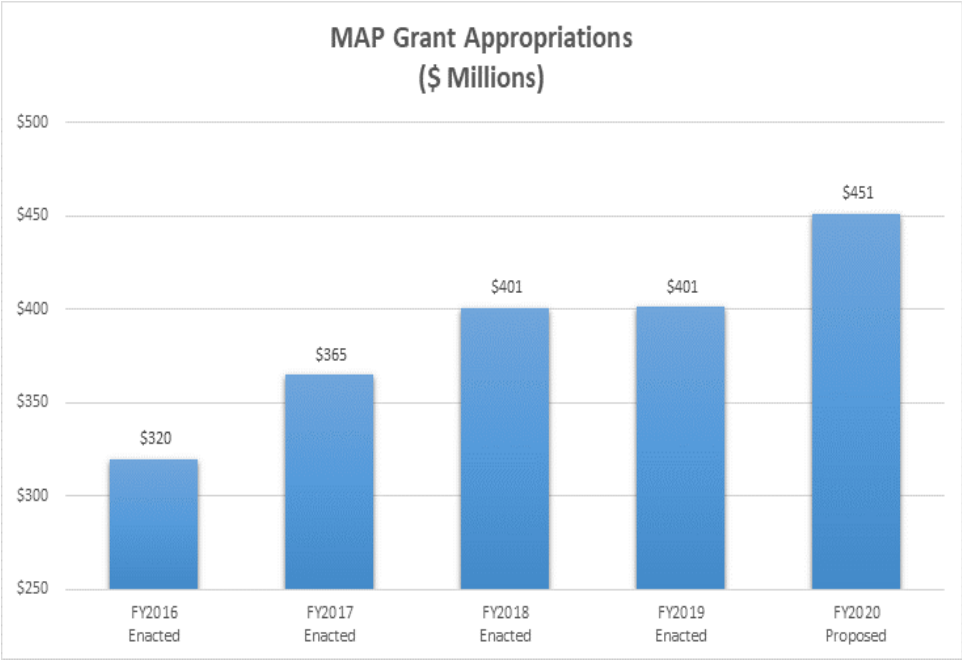
- ✓Increases Evidence-Based Funding - **$375 million**
- ✓Boosts support for Career and Technical Education - **$5 million**
- ✓Establishes Advanced Placement Low-Income Test Fee Waiver Program - **$2 million**
- ✓Raises Educator Misconduct Investigation funding - **$250,000**

Higher Education

Investing in Our People

Launching a new course for higher education in Illinois: reinvesting in students, increasing college affordability

- ✓ Prioritizes Monetary Award Program (MAP) - **$50 million**
- ✓ Includes funding for the 2nd year of AIM HIGH Pilot Program - **$35 million**
- ✓ Increases Public University funding - **$52.2 million**
- ✓ Increases Community College funding - **$13.9 million**
- ✓ Creates Competitive Grant Program for Student Support Services - **$3.8 million**
- ✓ Restores POW/MIA scholarships, which have not been funded since 2009 - **$3.5 million**



Department of Human Services

Protecting the Most Vulnerable

- ✓ Proposes increasing the income eligibility for the Child Care Assistance Program from 185% of the Federal Poverty Level (FPL) to 200% of the FPL. Once in, families will be allowed to stay in the program with incomes up to 215% of the FPL - **$30 million**
- ✓ Supports nearly 700 new placements for individuals with developmental disabilities transitioning to less restrictive home settings under the *Ligas* Consent Decree - **$31.3 million**
- ✓ Provides funding to address minimum wage changes in programs including Addiction Treatment, Child Care, Developmental Disabilities, Home Services and other community services - **$107 million**
- ✓ Increases Home Services Program funding to recognize caseload growth ($23.2 million) and underfunding in FY2019 ($80 million) - **$103.2 million**
- ✓ Increases funding for homelessness prevention - **$250,000**

Department on Aging

Supporting Our Seniors

- ✓ Provides funding to address changes in the minimum wage and rate increases for Emergency Home Response, Adult Day Care and Homemaker services in the Community Care Program and other senior support services - **$65 million**

- ✓ Supports Case Coordination Units in completing Medicaid Applications for clients (P.A. 100-0587) - **$24 million**

- ✓ Improves timeliness of payments for critical programs including Home Delivered Meals, Adult Protective Services, Case Coordination and Planning and Service Grants to Area Agencies on Aging by realigning $125 million General Revenue Fund (GRF) appropriations to the Commitment to Human Services Fund.

Other Human Services Agencies

Improving Child Protection and Welfare
Keeping Our Communities Safe and Healthy
Serving Those Who Served

- ✓ Adds 126 DCFS direct service staff including Child Protection Specialists and Child Welfare Specialists - **$9.8 million**
- ✓ Begins implementation of the Comprehensive Child Welfare Information System, a federally mandated upgrade to the current system that will modernize child welfare data and provide real-time information - **$25 million**
- ✓ Provides for Family Preservation services to expand case management and other services to families - **$10 million**
- ✓ Provides Department of Public Health with increased funding for new lead screening cases tied to changes to the actionable levels of lead present in blood - **$6 million**
- ✓ Provides Department of Veterans' Affairs funding to open the new 200-bed Chicago Veterans' Home in the spring of 2020 - **$20.6 million**

Artist's rendering of the new Chicago Veterans' Home

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Healthcare and Family Services

Caring for Illinois Families

The Fiscal Year 2020 Recommended Budget:

- ✓ Proposes a new managed care organization assessment which, combined with the redirection of cigarette tax revenues, will allow HFS to more efficiently manage payments while potentially generating additional federal revenues for program enhancements

- ✓ Provides funding for Medicaid program staff to administer, coordinate and implement the 1115 Behavioral Health Waiver, which will focus on the state's investment in behavioral health, including substance use disorders and mental health services. Also improves management and coordination of existing Medicaid programs among partner agencies - **$3.2 million**

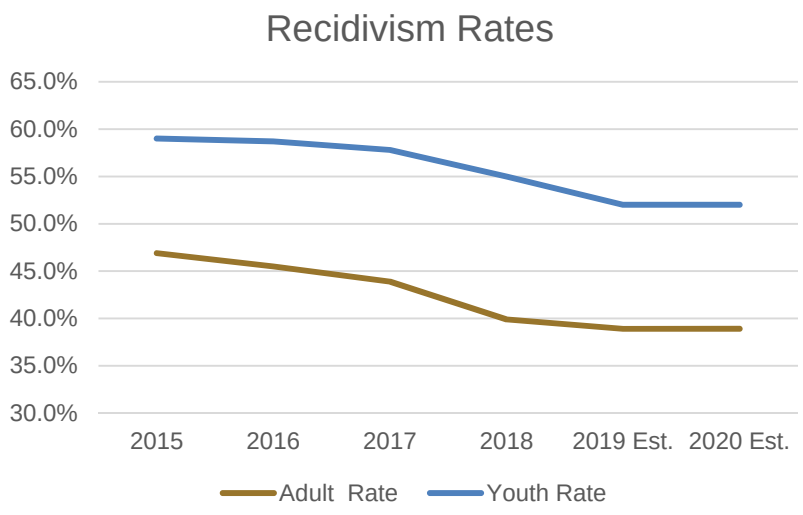
- ✓ Provides funding for 19 additional staff in the Bureau of Collections to improve Medicaid cost avoidance and recoveries - **$2.5 million**

Supporting Restorative Justice

Rehabilitating Our Offender Population

Continuing efforts to reduce the recidivism rate by focusing on treatment and rehabilitation to ensure successful and permanent re-entry into society.

- ✓ To bring more fairness and equity into the criminal justice system, Lt. Governor Stratton will spearhead the Justice, Equity and Opportunity (JEO) Initiative
- ✓ Increases funding for Community-Based Violence Prevention Programs **- $2 million**
- ✓ Increases Department of Juvenile Justice funding for consent decree compliance - **$8 million**



Investing in Public Safety
Department of Corrections, State Police, DNR

Department of Corrections:

- ✓ Implements Electronic Medical Records System (EMR) for compliance with the *Lippert* Consent Decree – **$25 million**
- ✓ Maintains Joliet and Elgin Treatment Centers – **$46.2 million**
- ✓ Completes Offender 360 Final Buildout – **$25 million**

Illinois State Police:

- ✓ Funds Two Illinois State Police Cadet Classes – **$7.6 million**
- ✓ Establishes Funding for the Firearm Dealer License Certification Program (P.A. 100-1178) – **$5 million**

Department of Natural Resources:

- ✓ Funds a Conservation Police Trainee class of 20 officers

FISCAL STABILITY

Revenues and Pensions

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A Path Toward Fiscal Stability

Illinois' recent fiscal history is one of instability and uncertainty.

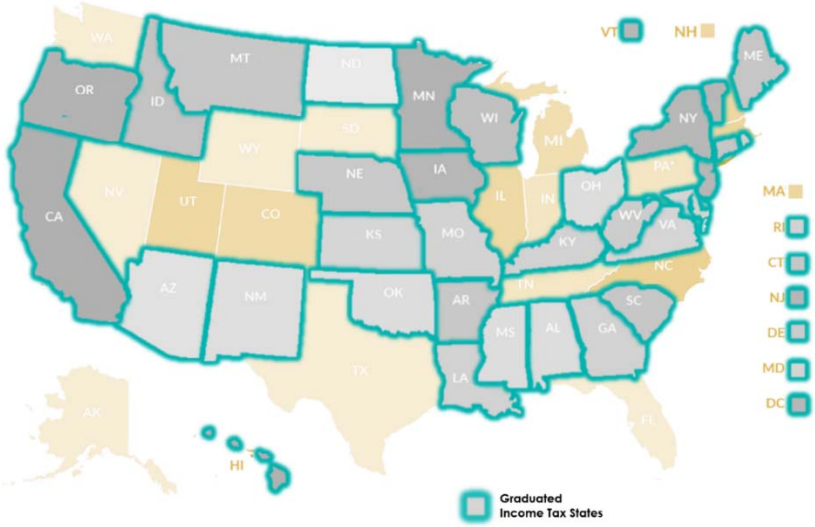
- ✓The budget impasse in FY2016 and FY2017 damaged the State's reputation and relationship with entities dependent on state payments.
  - ✓The backlog increased from $5 billion at the beginning of the impasse to a peak of $16.7 billion.
  - ✓Illinois' credit rating was downgraded 8 times.
  - ✓Late payment interest penalties from the impasse exceed $1.25 billion.
- ✓Illinois will continue to face structural deficits, including an estimated deficit of $3.2 billion in FY2020.
  - ✓Structural deficits cannot be addressed by spending cuts alone.
  - ✓Revenue adjustments and a different approach to the payment of the state's pension contributions are necessary.

A Call for a Fair Income Tax System

Illinois' current tax structure is unsustainable.

- ✓ Governor Pritzker believes our fiscal health depends on the passage of a constitutional amendment to allow for a fair income tax system.
- ✓ Thirty-three states and the federal government have graduated income tax rates based on varying income levels.
- ✓ Only nine states tax income at a single rate.
- ✓ According to the Institute on Taxation and Economic Policy (ITEP), Illinois has the eighth most regressive tax system in the country.
- ✓ The lowest 20 percent of earners pay 6.8 percent of their income in sales and excise taxes while the top one percent of earners pays just 0.8 percent of their income in sales and excise taxes.[1]

States with Graduated Income Tax Systems



[1] https://itep.org/illinois/

Revenues Needed to Balance the Budget

- ✓Facing the structural deficit and knowing that a fair tax cannot be implemented before FY2021, Governor Pritzker recognizes that additional revenues will be needed in FY2020.

- ✓Estimated new revenues and adjustments total a $1.1 billion benefit to the FY2020 general funds budget.
  - ✓In the absence of these revenues, an equal amount of spending would have to be eliminated.
  - ✓While the Governor does not recommend it, the general funds budget, aside from employee healthcare, pension and debt service costs, would be cut 4.0 percent to keep the budget balanced.
    - ✓This cut would eliminate much needed investments in education, higher education, social services and criminal justice programs.

Proposed revenue changes will enable the state to fund essential services now…

Close Corporate Tax Loophole:

Decouple from Federal Tax Credit for Repatriated Corporate Income - $94M

Additional Revenues to Support Medicaid:

E-Cigarettes - $10M

Cigarette Tax Increase - $55M

MCO Assessment - $390M

Identify New Revenue Markets:

Sports Wagering $212M

Recreational Cannabis - $170M

Plastic Bag Tax - $20M

$1.121B

Changes to existing rate structures:

Phase out Private School Scholarship Credit - $6M

Create Progressive Tax Structure for Video Gaming - $89M

Cap retailers discount - $75M

In addition, there is a proposed FY2020 Delinquent Tax Payment Incentive Program estimated to accelerate an additional $175 million.

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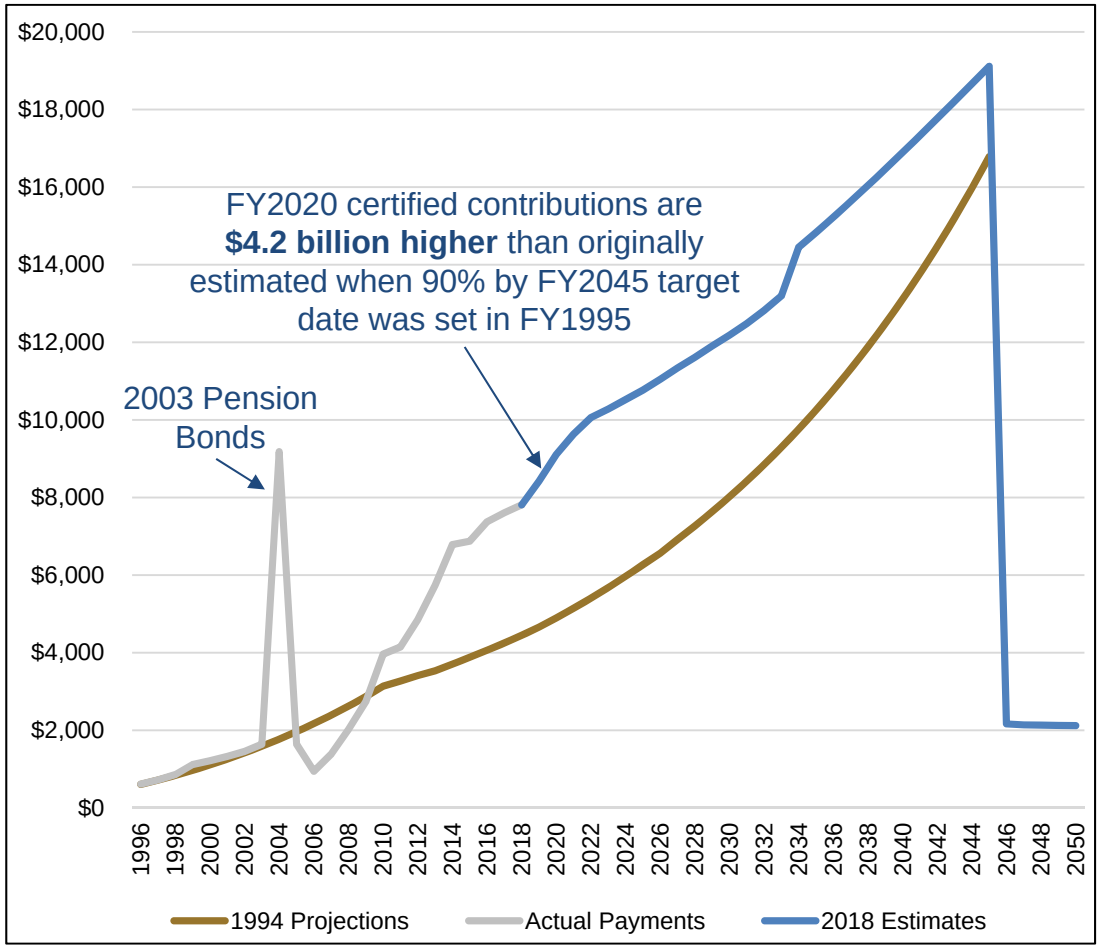
Pension Debt

The State's Biggest Financial Challenge

- ✓ Illinois' current pension payment schedule follows the plan set forth in 1994, 25 years ago.
- ✓ After the original ramp ended in FY2010, the schedule assumed gradual growth in pension payments.
- ✓ However, the impact of recessions on asset values and changes to the systems' actuarial assumptions led to a steeper ramp in payments - even with the addition of Tier 2.
- ✓ Appropriations for state pensions have grown on average by 9% ($500 million) annually since FY2010.

Projected State Retirement Contributions
1994 est. vs 2018 est.
($ millions)



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Sustaining the Pension Systems

A Five-Tiered Approach

The Governor's approach to pension stabilization, taken collectively with the expansion of the tax revenue base and the ongoing investment in priorities that will grow our economy, will put the state on a sustainable path that keeps its promises to retirees.

1) New dedicated revenue from the fair income tax on top of certified amounts

2) Extend the current pension buyout program

3) Infuse the systems with additional assets from the issuance of new pension funding bonds of $2 billion

4) Establish two task forces: Pension Asset Value and Transfer Task Force and a Pension Consolidation Task Force

5) Restructure the pension debt to make payments more sustainable by modestly extending the target date to fiscal year 2052

BUDGET WALK DOWN

FY2019 and FY2020 General Funds Revenues Summary

- ✓ General funds revenues are estimated to total $38.9 billion, a $1.493 billion, or 4.0%, increase from FY2019 revised base estimates.
- ✓ The FY2020 projection reflects the impact of the revenue changes outlined previously.
  - ✓ The Medicaid program related revenues, plus a portion of the overall cigarette tax revenues, will be deposited directly into the Healthcare Provider Relief Fund, outside of the general funds.
- ✓ In addition, there is a proposed Delinquent Tax Payment Incentive Program estimated to accelerate an additional $175 million into FY2020.

Resources:

$ in millions	Estimated FY 2019	Projected FY 2020	$ increase	% increase
Net Individual Income Taxes	18,251	18,851	600	3.3%
Net Corporate Income Taxes	2,207	2,338	131	5.9%
Net Sales Taxes	8,229	8,537	308	3.7%
All Other Sources	3,448	3,807	359	10.4%
Total State Sources: Revenues	**32,135**	**33,533**	**1,398**	**4.3%**
State Sources: Transfers In				
Lottery	731	745	14	1.9%
Riverboat Gaming Taxes	263	258	(5)	-1.9%
Other Transfers	1,061	820	(241)	-22.7%
Total State Sources:	**34,190**	**35,356**	**1,166**	**3.4%**
Federal Sources	3,220	3,547	327	10.2%
Total, Base Revenues	**37,410**	**38,903**	**1,493**	**4.0%**
Interfund Borrowing	250	-	(250)	
Total Resources*	**37,660**	**38,903**	**1,243**	**3.3%**

**FY2019 resources do not include the $700 million from Treasurer's investment program, nor the estimated $600 million deposit from a proposed backlog borrowing and the impact that borrowing might have on federal receipts. See the Budget Book for additional details on FY2019 revised budget estimates.*

FY2019 and FY2020 General Funds Expenditures Summary

- ✓ The proposed FY2020 General Funds budget has estimated expenditures totaling $38.748 billion.
- ✓ Proposed budget includes a shift of Medicaid spending to Healthcare Provider Relief Fund to align with the new revenues deposited to the fund.
  - ✓ Allows HFS to manage program cash flow.
- ✓ Estimated surplus of $155 million
- ✓ Without proposed revenues, the FY2020 operating budget will be reduced by 4% - excluding debt service, pensions and group health insurance.

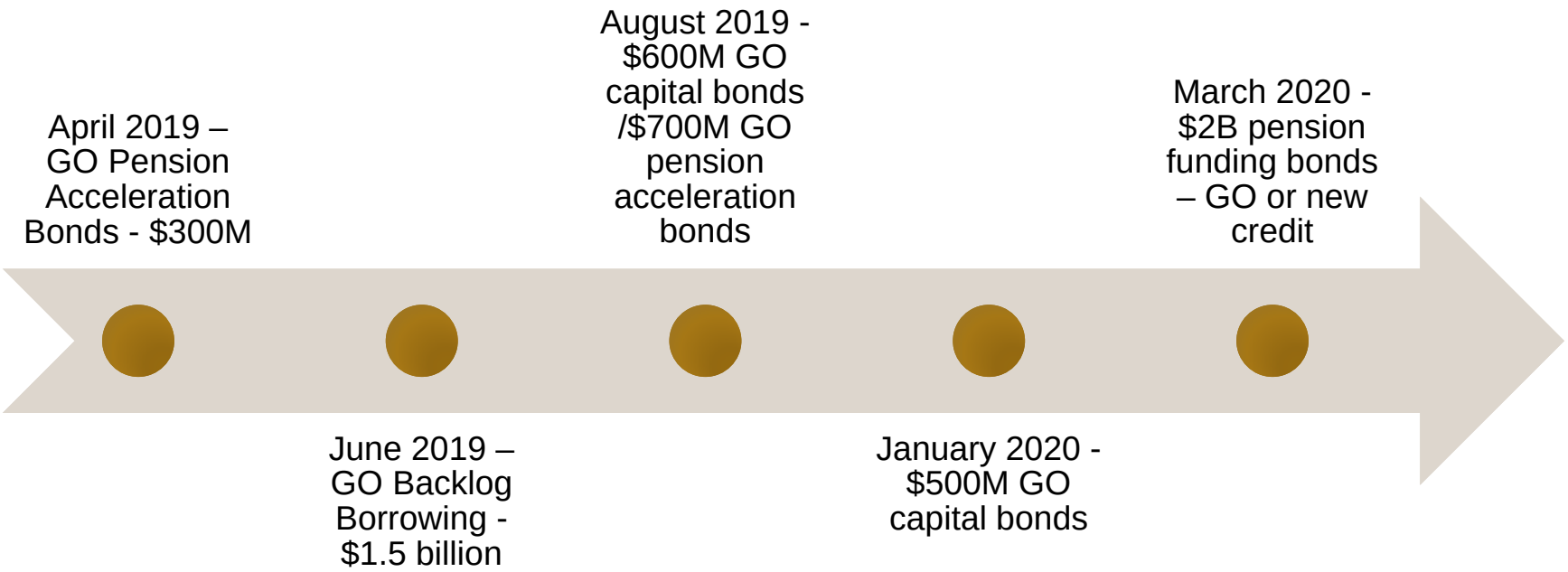
Expenditures:

Budget Categories ($ in millions)	FY19 Estimated	FY20 Proposed Budget	$ Change from FY19 Estimated	%Change from FY19 Estimated
General Funds Appropriations:				
Education (ISBE/Higher Ed)	10,173	10,804	631	6.2%
Economic Development	62	56	(6)	-9.7%
Public Safety	1,735	1,855	120	6.9%
Human Services	5,906	6,448	542	9.2%
Healthcare (Medicaid)	7,930	7,228	(702)	-8.9%
Environment and Culture	59	59	-	0.0%
Government Services	3,390	3,417	27	0.8%
Pensions	7,478	7,124	(354)	-4.7%
Unspent Appropriations	(1,050)	(975)	75	
Operating Budget	**35,684**	**36,016**	**333**	**0.9%**
Interfund Borrowing Repayment	60	85	25	41.7%
Statutory Transfers/Debt Service	3,092	2,646	(446)	-14.4%
Supplemental Appropriations*	473	-	(473)	
*Total Estimated Expenditures***	*39,309*	*38,748*	*(561)*	*-1.4%*

**Supplemental Appropriations include the potential range of estimated liability for retroactive step increases for AFSCME employees.*
***FY2019 numbers exclude impact of repayment of the Treasurer's Investment Borrowing program. See the Budget Book for additional details on FY2019 revised budget estimates.*

CAPITAL MARKETS PROPOSALS

Tentative Bond Sale Issuance Schedule



GO stands for General Obligation.

Note: Outlined is the projected bond sale issuance schedule; project related bond sales reflect current capital project needs. The state will seek legislative authority to issue the March 2020 bonds as individual income tax (IIT) revenue bonds to achieve more favorable pricing and demand from investors.

Individual Income Tax Bonds

- ✓IIT bonds would be limited obligations of the state, payable solely from individual income tax revenue pledged to the IIT bonds.
- ✓Similar to the state's Build Illinois sales tax backed bonds, IIT bonds should provide the state with a higher rated credit and a lower cost of capital, than its General Obligation bonds. This funding maximizes the potential savings from the issuance of pension funding bonds.
- ✓IIT bonds may also diversify the state's investor base, fostering more investor demand for the state's bond sales.
- ✓The State of New York established a Personal Income Tax credit in 2001 and utilizes this credit alongside its General Obligation bonds.

CAPITAL BUDGET

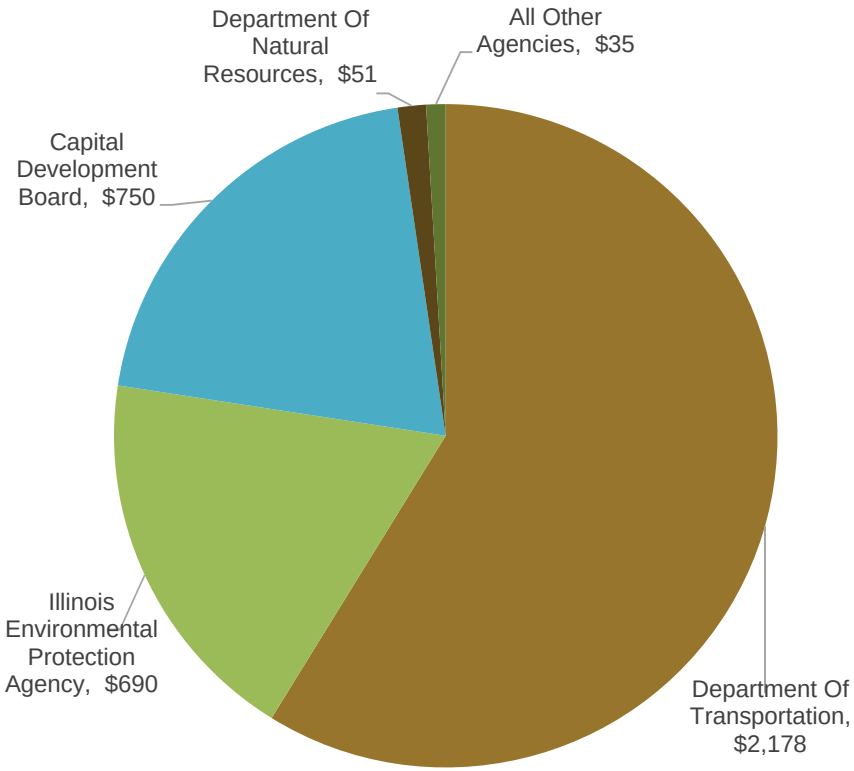
Infrastructure and Deferred Maintenance

Governor's Capital Budget

Focus on Deferred Maintenance Statewide

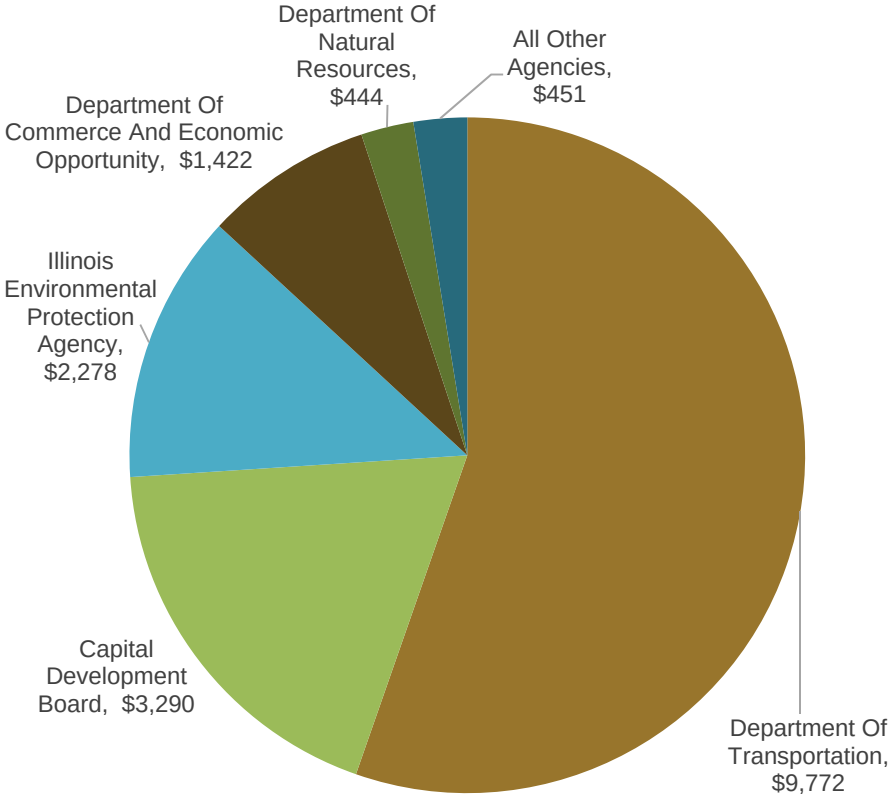
$3.7B in FY2020 New Capital Appropriations

($ millions)



$17.7B in FY2020 Total Capital Appropriations (new and reappropriated)

($ millions)



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This budget features maintenance level new appropriations and reappropriations of prior year projects

- ✓ New lump sums for Capital Development Board to address deferred maintenance:
  Statewide facilities - **$600 million**
  Higher education - **$150 million**

- ✓ FY2020 “pay go” Road Program - **$1.8 billion**

- ✓ New Environmental Protection Agency loans and grants for municipal water and environmental projects:
  Non-bonded - **$662 million**
  Bonded - **$25 million**

- ✓ New Department of Innovation and Technology lump sum for statewide broadband - **$20 million**

- ✓ New Department of Military Affairs appropriation as seed money for federally reimbursable projects - **$15 million**

- ✓ Continues Department of Commerce and Economic Opportunity capital grant programs

Deferred maintenance backlogs have reached over $23 billion

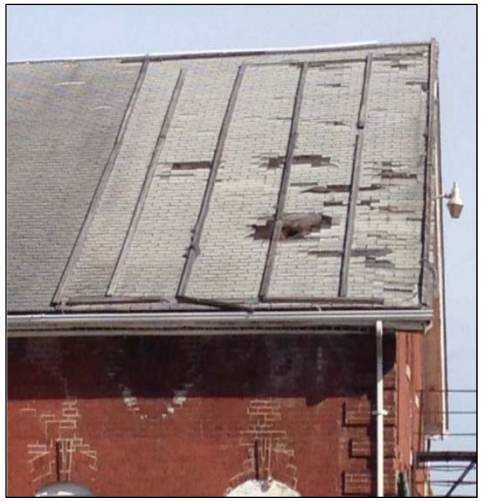
State Facilities	Higher Education Institutions	K-12 Institutions
$7.8B	**$6.7B**	**$9.3B**

These figures do not account for the massive infrastructure maintenance backlogs of our roads, bridges and waterways

A comprehensive capital plan is needed to fully address these backlogs

Stateville Correctional Center

Pullman Historic Site



Choate Mental Health and Developmental Center

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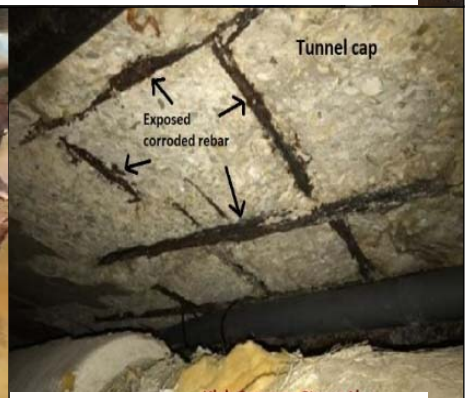
Statewide deferred maintenance needs increase by an estimated $500-$700 million each year

Coliseum of Champions

University of Illinois Chicago

Stateville Correctional Center

Chicago State University



Northern Illinois University

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Need Additional Information?

- ✓Please visit the Governor's Office of Management and Budget website to download a copy of the *Fiscal Year 2020 Budget* book, the *Fiscal Year 2020 Capital Budget* or to view the Interactive Budget portal.
- ✓https://www2.illinois.gov/sites/budget/Pages/default.aspx