



The Institute for Illinois' Fiscal Sustainability at the Civic Federation

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CIVIC FEDERATION SENDS ILLINOIS INTO FISCAL REHAB *Proposes Comprehensive Package to Address State Budget Crisis*

CHICAGO – The Civic Federation, a 116 year-old government research organization, released today its plan to salvage the State of Illinois' finances. "A Fiscal Rehabilitation Plan for the State of Illinois" calls for a **comprehensive package** of budget cuts, pension reforms, and revenue increases to put Illinois on solid financial footing and address its nationally-recognized fiscal crisis.

"The Civic Federation plan offers the Governor and General Assembly our recommendations for a fiscally reasonable path out of the State's destructive budget crisis based on sound financial principles," said Laurence Msall, president of the Civic Federation.

- First, the State must enact reforms of its retirement systems, including reduced benefits for new employees.
- Second, the State must cut expenditures by at least \$2.5 billion. This includes rolling back spending to FY2007 levels.
- Exceptions should be made for Medicaid to prevent the loss of federal stimulus funds and general state aid for education as a State priority, both of which should be maintained at FY2010 levels.

The Civic Federation opposes any revenue increases until these first two steps are taken.

If pension reform is enacted and expenditures are rolled back to the point before state revenues began to decline due to the recession, the Civic Federation would then recommend an increase in the individual income tax from 3% to 5% and the business income tax from 4.8% to 6.4%. This would raise \$6 billion in new funds for the State. The State should then repeal the income tax exemption for federally taxed portions of retirement and Social Security income to raise \$1.6 billion at the new income tax rate of 5%. Additional proposed measures include increasing employee contributions to pension and health insurance, as well as business tax changes and a cigarette tax increase.

If this budget plan were enacted, the State would pay down 84% of its \$12.8 billion deficit by the end of FY2011. The remaining \$2.1 billion budget gap could then be closed in FY2012 by limiting expenditures to FY2007 levels until the backlog of unpaid bills is paid off. In FY2013 and beyond, the revenues generated by this plan will be needed to fund increased statutory pension payments. None of the money will be available to be used to fund new programs or expand spending in areas other than pensions. "Illinois' fiscal crisis has been many years in the making," said Msall. "It was caused by more than 30 years of pension underfunding and many years of spending unfettered by the State's shrinking revenue resources. The Civic Federation does not enjoy advocating a significant tax increase in the middle of a difficult recession. However, continuing to do nothing would be by far a worse option."

The Civic Federation plan was developed after the organization considered actions taken by other states and proposals from other civic organizations and lawmakers. Analysis of those proposals is included in the full 100-plus page report. The Federation thanks the John D. and Catherine T. MacArthur Foundation for its support of the Institute for Illinois' Fiscal Sustainability and the Joyce Foundation, McCormick Foundation, and the Chicago Community Trust for funding the research and analysis for the report. The full rehabilitation plan, along with guided tutorials and frequently asked questions will be available today on our website at <http://civicfed.org/iifs/illinoisrehab>.

The Institute for Illinois' Fiscal Sustainability at the Civic Federation is made possible by a generous grant from the John D. and Catherine T. MacArthur Foundation. The Institute's mission is to improve the State's decision-making process by providing timely fiscal policy analysis and recommendations to State officials, the media, and the public through education and digital outreach. Please visit www.civicfed.org/iifs for more information.

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