



the

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Governor Sets Stage for Budget Dance



Photo courtesy of the House Democratic Staff: Russ Nagel - Photographer

Governor Rod Blagojevich outlined his plan to bring the budget, with a \$5 billion deficit, into balance in his long-awaited budget address. He laid out his greatly anticipated and yet dreaded objectives to the General Assembly and constitutional officers in the House chamber on Wednesday, April 9. For one hour and 35 minutes, the Governor explained how he would achieve a balanced budget for fiscal year 2004, providing the scope of his proposed cuts agency by agency. Governor Blagojevich cut \$345 million from the \$52.4 billion budget, only the second time since 1970 that state spending was reduced.

The Governor placed the blame for the budget mess on rising health care costs, i.e., state health insurance and Medicaid; a tax structure based on an industrial rather than increasingly service economy; and state government not responding quickly enough to an economic downturn. The Governor estimates state health insurance costs will increase by an additional \$158 million from FY 2003, while Medicaid costs have risen 41% since FY 1999. The Medicaid deficit remains at \$300 million over the past three years.

Additionally, the Governor deems the budgetary deficit a result of shoddy accounting practices and mismanagement, as well as under-funding and borrowing from employee pension funds. Governor Blagojevich specified health care, public safety, and education as protected areas within his budget plan but little else was spared. In fact, he included budgetary increases involving his three priority areas. For example, the Governor proposes a \$250 per student increase in the educational foundation level up to \$4,810.

Cutting the number of employees under the Governor's control by approximately 5,100 and reorganizing and scaling back the number of state agencies are a part of his plan. No layoffs of state employees are expected but many of the 11,000 vacancies caused by early retirement will not be filled. Executive orders were signed on March 31st dealing with agency reorganization in an effort, according to the Governor, "to streamline state government and improve efficiency." The orders involve consolidating or transferring operations of 14 existing state agencies and five major functions. These measures are expected to save \$40 million over the next fiscal year. With these changes,

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Blagojevich believes “business as usual in Springfield is becoming a thing of the past.” (See sidebar on this page for breakdown of agency reorganization and consolidation.)

Fees, Taxes and Loopholes

The Governor’s address incorporates tax increases, higher user fees and non-consumer fees, and closing 12 tax loopholes, although the budget excludes any sales and income tax increases. One such loophole is in the state’s utility tax. Companies purchasing natural gas outside of Illinois and transporting it back to Illinois don’t pay the tax. They (typically large utility users) would no longer be exempt from the Natural Gas Excise Tax. Some affected fees are the lobbyist registration fee going from \$50 to \$250; a business incorporation fee increase (currently \$75 and 50% below average for industrial states); and increasing the costs of environmental permits. Additionally, Blagojevich proposes decoupling the state’s estate tax from the federal estate tax. The tax would be imposed on estates valued at over \$2 million. He also calls for instituting a tax amnesty program anticipated to net about \$40 million. The last amnesty occurred almost 20 years ago. However, taxpayers owing money that is well past due would become responsible for collection fees (5% for internal collections costs and whatever amount collection agencies charge).

Sin Taxes

Riverboats would be impacted in a number of ways. Entrance fee increases would generate an estimated \$40 million; increasing taxes on riverboat profits by imposing a 20 % surcharge on profits over \$250 million would generate about \$168 million; and the sale of the tenth riverboat gambling license is anticipated to generate \$350 million. Revising the way liquor and cigarette taxes are collected is expected to bring in another \$82 million. Increasing liquor license fees from \$175 to \$500 is expected to raise an additional \$7 million.

Other Budgetary Ideas

- Sale of state assets and leasing back property, e.g., James R. Thompson Center - \$200 million
- Sale of State Toll Highway Authority building - \$30 million
- Non-union state employees will forgo pay raises this year and will pay 4% into their pension funds. The State currently pays both employer and employee

contributions - \$28.4 million

- Delay of maintenance projects and non-essential repairs
- Suspend construction of prison in Hopkins Park and no reopening of three prisons
- Lower costs of state employees’ insurance through negotiation - \$75 million
- No historic sites will be closed but restricted hours will be maintained.

Mergers

- 1) Merge Department of Nuclear Safety into the Illinois Emergency Management Agency
- 2) Move the Department of Lottery, Liquor Control Commission, and Racing Board to the Department of Revenue
- 3) Merge Pollution Control Board and Environmental Protection Trust Fund Commission into the Environmental Protection Agency
- 4) Merge the Comprehensive Health Insurance Plan into the Department of Insurance

Consolidated Functions

Legal work pertaining to personnel, procurement, bond financing, internal auditing, etc., will be handled by a central law department at Central Management Services (CMS). All facilities management functions will be consolidated at CMS.

Six smaller state agencies will share office space, equipment, and administrative staff. These shared offices centers will be located in Springfield and Chicago. Some of the affected agencies include the Property Tax Appeal Board, the Guardianship and Advocacy Commission, Illinois Violence Prevention Authority, and Human Rights Commission.

Consolidate state and federal job-training programs into the Department of Commerce and Economic Opportunity. Prairie State 2000 and the Industrial Training Program are two such programs.

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Budget Reforms

The budget numbers will change during the spring legislative session, but Governor Blagojevich has made some basic changes to the budget document and the budget process. These “truth in budgeting” reforms come in four categories: budget document reforms; budget process reforms; debt management reforms; and pension funding reform.

One of the most obvious changes is what the Governor calls “plain language.” This document reform changes so-called insider language with new terms that the Governor believes better describes what is happening in the budget. Lapse Period Spending becomes “accounts payable (unpaid bills) to our vendors.” Lapsed Spending becomes “unspent budget.” Permanent Lapse, which is the same as Lapsed Spending, becomes “unspent budget.” Refunded Warrant becomes an “uncashed or voided check written by the state.” The other document reform is the requirement to review all “unspent budget” items that are over five years old.

The Bureau of the Budget (BoB) gets an update under this plan. The BoB will be known as the Governor’s Office of Management and Budget or GOMB. The Gover-

nor wants the GOMB to be more involved in managing revenues, spending, capital, and debt. Blagojevich wants to implement performance based budgeting in state government.

A pro-bono “management corps” will be recruited to advise GOMB on bringing best practices to state government operations. The Governor has also appointed a Council of Economic Advisors to help GOMB develop more reliable revenue forecasts. Other reforms include multi-year financial planning, two percent budget reserves in agencies, more flexible borrowing, and a more disciplined capital development program.

As part of debt management reform, the Governor would like to see a formal debt management program. He would also like to modernize the state’s debt practices, include more analysis of debt and

costs of borrowing, and generally take better advantage of markets to lower the state’s borrowing costs.

Pension funding reforms include the Governor’s plan to bond out part of the state’s pension debt. The Governor will review fees paid to pension fund managers as well as ordering a pension fund performance study. By better tracking pension investment performance, Blagojevich believes return on investment can be improved.



New Budget Language:

Lapse Period Spending = “accounts payable (unpaid bills) to vendors.”

Lapsed Spending = “unspent budget”

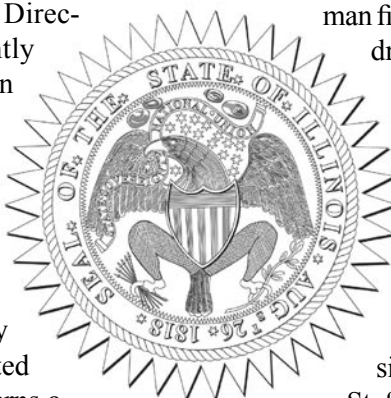
Permanent Lapse = “unspent budget”

Refunded Warrant = “an uncashed or voided check written by the state.”

The Original State Seal Discovered

Mark Sorensen, formerly Assistant Director at the Illinois State Archives, recently discovered the oldest known impression of the original Great Seal of the State of Illinois. The Great Seal is used to certify copies of official state documents; the Secretary of State’s office acts as the official keeper of the Seal.

The discovery was made while Archives staff was processing 19th century court records from Madison County. Dated November 18, 1819, the document concerns a



man fined for keeping a disorderly house “in which drinking and card playing was resulting in a public nuisance.” In the document, Illinois’ first governor Shadrach Bond reduced the man’s fine from \$100 to \$8 and then had the seal affixed making it official.

Originally, two engraved metal pieces affixed a paper seal to documents. The glue on the discovered document has gone bad, and the three dimensional impression in the paper has become very discolored. Staff at the Illinois State Archives tried a variety

of means to capture the impression fully. They tried rubbing the impression, digitizing it, and photocopying. Finally, a Secretary of State artist drew the image by hand. However, it became apparent that one picture alone would not capture all the details. According to the recently retired Sorensen, the difficulty lies in trying to change a three dimensional object into a one dimensional depiction.

Illinois has had three different state seal designs over the course of its statehood, with the last change made in 1868. These days, the State of Illinois has three machines that affix the State Seal. Based on the discovery of this document, the rendition currently found in the Illinois Blue Book will be updated to take into account previously unknown details on the seal.



A Blagojevich Addition

Congratulations to Governor Rod Blagojevich and his wife Patti on the birth of their second daughter. Born ten days past her due date, eight pound, five ounce Anne “Annie” Blagojevich was born at 5 A.M. at Chicago’s Northwestern Memorial Hospital

on April 5, 2003. She will be welcomed at home by her six-year old sister Amy.



People In Transition

Tim Anderson has returned to the Senate Democratic staff as the new appropriations director. He had been serving as legislative liaison for the Secretary of State.

Long time Senate Democratic staff member **John Charles** has been promoted to director of communications and research for the Senate Democrats.

Brian McFadden has been named chief of staff for the Senate Republicans. He worked on the Senate Republican staff from 1987-1995 before serving as chief of staff for Springfield **Mayor Karen Hasara**. McFadden replaces **Carter Hendren**, who is taking advantage of early retirement to form a consulting firm with Senate Republican Deputy Chief of Staff **Tom Taylor**, who will also be retiring from his position.

More Blagojevich Appointees

- Tom Schafer** – Press Secretary (Springfield office)
- Abby Ottenhoff** – Press Secretary (Chicago office)
- Tom Londrigan, Jr.** – Chief Legal Counsel (Springfield)

