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# COOK-WITTER REPORT

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## Analysis of the Governor's Budget - Part I

**G**overnor Blagojevich's second speech of the year dealt with the roughly \$43 billion in operating expenses to be considered for the Fiscal Year 2005 budget. The speech to a joint session of the General Assembly began on February 18 at noon and lasted a little over 70 minutes. Governor Blagojevich's proposals for the next fiscal year beginning July 1 contained some of the same features as last year's speech – facility closings, personnel cuts, educational spending increases. Governor Blagojevich repeated another feature of last year's address, that is consolidating functions of agencies and merging others. According to the Governor, the budget deficit for this fiscal year now stands at \$1.7 billion, an improvement over last year's \$5 billion hole. Once again, escalating Medicaid costs and employee health insurance were blamed for causing a major part of the \$1.7 billion deficit. The balance of the \$53 billion budget relating to the capital expenses (construction projects) was presented in March. The Governor still rejects the idea of a sales and/or income tax increase.

Governor Blagojevich stated that \$50 million has been invested in a Rainy Day Fund, and he wants to add that much every year. Budgeting on a quarterly basis is occurring now, according to the Governor, and \$1.5 billion in waste and inefficiency has been eliminated. The Governor expressed pride in Illinois having the lowest state payroll in 30 years. As a follow up to one item from last year, the Governor proposed mortgaging the James R. Thompson Center for \$200 million in cash. The deal involves the state borrowing money from a French bank at an interest rate of 5.1% and making payments of \$14 million for ten years, with a balloon payment of approximately \$148 million then due. Another of the Governor's ideas from last year's budget address proved to be very successful. A tax amnesty program the Governor's Office of Budget and Management

estimated could generate \$40 million actually brought in \$185 million that could be used for state budget purposes. Overall, the tax amnesty program netted \$532 million, making it the most successful program of its kind in the United States, according to the Governor's office.

Governor Blagojevich calls on the General Assembly to pass three pieces of legislation, one being a Balanced Budget Act that would require every spending bill to have a corresponding revenue bill or spending reduction bill to pay for it. A second piece of legislation the Governor wants the General Assembly to pass is the Responsible Spending Act. It makes the reforms made last year per-

manent, requiring each state agency to put aside 2% of their budgets, and all agencies would be required to budget quarterly, while submitting monthly spending plans and for every billion dollar budgetary increase, \$50 million would be placed in the Rainy Day Fund. The third suggested piece of legislation is the On Time Bill Payment Act. It is similar to the Prompt Payment Act but instead of a 12% penalty for late payments, it allows the state to draw on a line of credit

and pay only 2% interest.

Closing prisons and shifting prisoners around marks one of Governor Blagojevich's proposals. Vandalia Correctional Center would be closed and prisoners moved to the Lawrence facility. The Illinois Youth Center in St. Charles would be closed and inmates moved to Kewanee. The Governor estimates a savings of \$50 million with these measures.

Although education was not the major theme of this speech as it was in the State of the State address, he called for increasing education spending by \$400 million for K-12.

Additionally, he proposes that students receiving fi-



nancial assistance from Monetary Award Program (MAP) grants will receive the same amounts regardless of whether attending private or public college or universities. Private colleges have traditionally received more. The Governor estimates that 1000 additional students could be helped.

Governor Blagojevich suggests changing the way social service providers (not-for-profit and for-profit community-based agencies) are paid. The Governor wants to switch from a grant basis to a fee-for-service basis. This plan would enable the state to maximize federal reimbursement. The Governor believes the state can capture an additional \$60 million in federal funds this year. In response to the Governor's proposal, Illinois House Speaker Michael Madigan announced on April 3<sup>rd</sup> the creation of a panel to fully examine this initiative.

State government would be impacted in a number of areas if all of the Governor's ideas come to fruition. Governor Blagojevich estimates that about \$15 million is being saved by lowering the number of agencies, boards, departments and commissions from 66 to 46. The Governor suggests consolidating the press offices of 25 state agencies and boards into one. This will mean one central office to field questions from the media instead of separate spokespersons at each state agency. Offering a limited Early Retirement Initiative may net an estimated savings of approximately \$25 million. This would entail leaving some positions unfilled and attempt to combine two positions into one wherever possible. The Governor's long range goal is to see the state workforce under 60,000 with an approximate savings of \$150 to \$200 million. The Governor detailed several examples of state agencies being combined, similar to a feature of last year's address. Following are some of the agencies to be merged:

- The Department of Professional Regulation, Financial Institutions, the Comprehensive Health Insurance Program, Banks and Real Estate, and Insurance into the Department of Financial and Professional Regulation.

- The Department of Agriculture's Bureau of Land and Water Resources would have been transferred to the Department of Natural Resources and all of Agriculture's environmental programs moved to EPA. However, the Governor recently changed his mind about shifting these programs after discussions with agricultural leaders.

- Merge the CMS Police and Illinois Commerce Commission Police (\$1 million savings) and reorganize Illinois State Police by moving more people from administrative

positions to positions working in communities. The savings from these two measures will be used to equip officers with 600 mobile data computers and 425 new squad cars. Governor Blagojevich wants to hire two new cadet classes and wants to offer a limited early retirement. Ten million dollars is the estimated savings with this move. Under a continuation of Operation Spotlight, 102 new parole agents would be added, seven supervisors, and six caseworkers. Other merger proposals include:

- Merge the Circuit Breaker Program and Low Income Home Energy Assistance Program to Department of Public Aid.

- Merge the Illinois Building Commission into the Capital Development Board.

- Move the functions of the ICC Railroad Commission into Department of Transportation.

## **Increases in Fees and Fines**

Governor Blagojevich would like to see certain fees and fines increased, those that are currently below neighboring states and those across the country in general. The suggested fees apply to businesses rather than the general public. Fee increases are a part of the Governor's proposed FY05 budget, but certainly not to the extent they were in the FY 04 budget. The FY 05 amount projected to be collected as a result of fee increases is about 84 percent lower than the amount generated in FY 04. The revenue expected to be generated for FY 05 will be \$57 million compared with \$420 million for FY 04. Governor Blagojevich might very well be able to argue that Illinois can handle some fee increases in that Illinois is one of the lowest per-capita fee states in the country with the national average at \$109 and Illinois' at \$43. Among our neighboring states, Illinois per capita fee average is the lowest while Kentucky's average is set at \$158 and Wisconsin's average is \$153. The FY 05 average for new revenue generated by fee increases is considerably less than the FY 04 figure, in fact 93 percent less than in FY 04. The average for new revenue for FY 05 is estimated at \$283,000 compared to \$4.16 million for the previous fiscal year. The Governor also suggests a mandatory minimum \$500 fine for those convicted for the first time of a DUI. The following is just a sample of a few of the Governor's proposed fee increases for various licenses issued by the State of Illinois.

**Department of Professional Regulation Proposed Fee Increases**

Application for New Credit Union	Proposed increase from \$250 to \$3000
Mergers	Proposed increase from \$250 to \$2000
Engineer Intern	Proposed increase from \$20 to \$100
Applications/Renewals for Cosmetology School	Proposed increase from \$200 to \$1000
Renewal for Funeral Director/Embalmer	Proposed increase from \$100 to \$340

**Department of Natural Resources Proposed Fee Increases**

Aggregate Mining: Blaster's License	Proposed increase from \$75 to \$225
Explosives Materials Storage (1-50 lbs.)	Proposed increase from \$25 to \$150
Timber Buyers License: Filing Fee	Proposed increase from \$25 to \$100

**Department of Revenue Proposed Fee Increases**

Lottery Retailers Application Fee	Proposed increase from \$10 to \$50
Lottery Retailers Phone Line Charge Fee	Proposed increase from \$5/week to \$10/week
Lottery Retailers Renewal Fee	Proposed increase from \$0 to \$25

**Secretary of State Proposed Fee Increases**

Trademarks Assignment of Mark	Proposed increase from \$5 to \$50
Trademarks Registration Renewal Fee	Proposed increase from \$5 to \$50
Replacement Sticker	Proposed increase from \$5 to \$20
Standard ID Card	Proposed increase from \$4 to \$20

**Close Tax Loopholes**

Governor Blagojevich estimates closing corporate tax loopholes will garner about \$223 million. The Governor estimated there were 42 tax breaks provided last year amounting to \$1 billion. According to the Governor, in 1980 one in five tax dollars were paid by corporations, now only one in nine dollars. He would like to see the loophole for corporations operating in Illinois but headquartered elsewhere closed. Governor Blagojevich pointed out that 40 Fortune 100 companies currently do business in Illinois but didn't pay state income taxes for the last three years.

- Limit a farm chemicals tax exemption to only small farms - \$27 million
- Eliminate the luxury watercraft use tax loophole - \$7 million
- Tax all corporate income as business income -\$29 million
- Corporations who do business here but hide money in foreign accounts – approximately \$40 million
- Collect sales tax on software packages currently paid by consumers but not by businesses - \$64 million

**Other Proposed Changes**

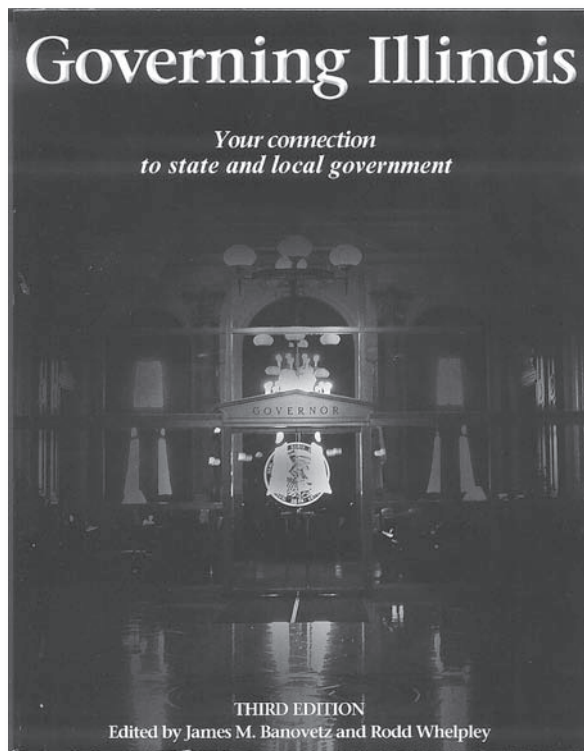
- A \$34 million dollar savings will result, according to the Governor, by foregoing the purchase of more land under the Open Space Lands Acquisition Program.
- The Governor plans to reduce by 50% the funding for government programs that help promote tourism.

**Rare Committee of the Whole Meeting in the Senate**

Last month a rare Committee of the Whole meeting was called by Senate President Emil Jones. The Senate convened at 10 a.m. on Wednesday, March 3, 2004. The Governor's educational proposals were the topic of the meeting. The Governor was the first to testify during the seven-hour meeting in which he responded to questions posed by senators. The last time a Committee of the Whole meeting occurred in the Senate was in 1992.



## Third Edition of *Governing Illinois* Now Available



A third edition of *Governing Illinois* is now available for purchase. For more than a decade, *Governing Illinois* has functioned as a textbook for Illinois middle school and high school students. Written by Illinois teachers and edited by James Banovetz and Rodd Whelpley, *Governing Illinois* is published by Center Publications, a unit of the Center for State Policy and Leadership at UIS.

This paperback textbook introduces the structure of state and local governments and the legislative process to civics students. *Governing Illinois* offers an interactive Web site that allows students to ask questions of experts on state and local government or to talk to students in civics classes at other schools. The *Governing Illinois* Web site also provides updates on issues discussed in the textbook. Additionally, the Web site provides a link to the official state Web page and other related sites. This edition of *Governing Illinois* has also been updated to include information about the 2002 elections.

Copies of *Governing Illinois* can be obtained by contacting Center Publications by phone at (217) 206-6502 or by ordering online at <http://ipa.uis.edu/govern/>. The price is \$12.00 for one copy (plus \$3.00 shipping and handling). If multiple copies are ordered, the per book price is reduced significantly.



## In Memorium



Photo by Doc Helm

On December 9 former **Senator Paul Simon** died from complications during surgery to bypass a clogged coronary artery and repair a leaking heart valve at the Prairie Heart Institute (St. John's Hospital) in Springfield. The passing of the 75 year old respected legislator from Makanda inspired praise and kind remembrances from both Democrat and Republican alike. He was well known for his unswerving integrity in the political arena, as well as in how he conducted his private life.

Born November 29, 1928 in Eugene, Oregon to missionary parents, he dropped out of college in Nebraska at the age of 19 and acquired a local newspaper with a \$3,600 loan. By 1966 when he sold his interests, he owned 15 newspapers.

His political career spanned four decades. He served in both chambers in the Illinois General Assembly, was a lieutenant governor, and served in the United States House of Representatives and Senate before retiring in 1997. From 1954 to 1962, he served eight years in the Illinois House of Representatives, then went onto the Illinois Senate for six years. In 1968 he became lieutenant governor. He then started the Public Affairs Reporting program at Sangamon State University before becoming a member of the United States House of Representatives from 1974 to 1984. For the next 12 years, he served in the United States Senate before retiring. Afterwards, Simon created the Public Policy Institute at Southern Illinois University where he taught, wrote and led the Institute. He wrote or co-authored more than 20 books over his lifetime.

His first wife Jeanne died in 2000. Simon leaves behind second wife Patricia Derge, a daughter Sheila Simon, son Martin, and step-daughter Jennie Derge.



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