

2010 budget *solutions*

*Balancing the state
budget without
tax hikes*





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No Superpowers Required

Balancing the budget without tax hikes or “doomsday” cuts

With all of the budget woes facing Illinois, it’s enough to make a weary taxpayer wish for a “budgetary superhero” to come and save the day.

Try as he might, Governor Pat Quinn isn’t a benevolent budget rescuer. If anything, he is likely to make the state’s storyline take a turn for the worse by insisting that \$3.2 billion in personal and corporate income tax increases are necessary to balance the budget. In a down economy, families and businesses are facing the last thing they need: a dangling noose of higher taxes.

In order to shore up support for his tax hikes, Governor Quinn recently took on the role of “villain” by concocting a dramatic “doomsday” scenario that slashed state spending by \$7.5 billion (he relies on \$4 billion in federal “recovery” funds to fill the \$11.6 billion budget deficit). In reality, less than half of those spending reductions are necessary to balance the budget without tax hikes. If Governor Quinn’s \$30.6 billion General Revenue Fund budget proposal for 2010 was reduced by just 10 percent, the budget could be

balanced with tax hikes off the table.

Are tax hikes or “doomsday” budget cuts really necessary to balance the state budget? No. This policy paper demonstrates how a sensible reduction in spending levels – combined with additional budgetary reforms – can put the state’s operations back in the black without income tax increases.

TABLE 1: Where Does Governor Quinn’s \$11.6 Billion Deficit Come From?

numbers in billions	Revenue	Spending	Deficit
2009	\$27.170	\$31.487	-\$4.317
2010	\$26.972	\$34.261	-\$7.289
Combined	\$54.142	\$65.748	-\$11.606

Source: Governor Quinn’s 2010 Budget Book¹

TABLE 2: Governor Quinn’s “Closing the Budget Gap”

numbers in billions	
Revenue Increases	
\$3.998	Federal Stimulus dollars
\$3.207	Individual & Corporate Income Tax Rate increases
\$1.253	All Others (Loopholes, Fees, Fund Sweeps)
\$8.458	
Spending Decreases	
\$2.846	Pension Funding decreases
-\$1.491	Medicaid paydown (one-time payment)
\$1.459	All other spending decreases
\$2.814	
Deficit Roll Over	
\$0.334	Rolled into 2011
Total	
\$11.606	

Source: Governor Quinn’s 2010 Budget Book²

How Quinn Digs and Fills the Budget Hole

Governor Quinn claims an \$11.6 billion budget deficit for fiscal years 2009 and 2010. He arrives at this number by subtracting spending from revenue intake; see Table 1 for a complete breakdown of his deficit calculation.

Essentially, the \$11.606 budget deficit means that the state is spending 21 percent more than what it brings in from revenues. Few families or businesses could get away with this kind of fiscal mismanagement.

See Table 2 for Governor Quinn’s proposed “fix” to the 2009/2010 deficit.

Governor Quinn claims that \$3.2 billion in new income tax receipts are necessary to balance the budget. This paper focuses on alternative approaches that would avoid balancing the state’s budget on the backs of hardworking taxpayers.

Keep some spending constant at 2009 levels

As laid out in Governor Quinn's budget deficit calculation for 2010, Illinois state spending would increase from \$31.487 billion in 2009 to a "base" budget of \$34.261 billion in 2010, an increase of almost 9 percent. Governor Quinn did offer \$1.303 billion in spending cuts and a \$2.296 billion reduction in the expected contribution to the public employee pension system. With these reductions his "proposed" budget for 2010 is \$30.662 billion.

However, Governor Quinn simply did not go far enough in his spending reduction proposals, and in some cases he has backtracked from them. To make matters worse, he actually *increased* proposed fiscal year 2010 expenditures for certain "Governor's Agencies" by \$980 million over their 2009 allocation. Selling

a tax hike as a deficit-reduction measure is disingenuous when the resulting revenue will be used to fund new government spending.

See Table 3 for a list of departmental budget adjustments that bring increased 2010 spending levels back to their 2009 allocations.

While some of Governor Quinn's new spending is financed by federal "recovery" dollars (in certain instances stimulus dollars may be counted as "state sourced"), Quinn is setting up a scenario where funding level maintenance will be expected in future years even as one-time stimulus funds disappear. Quinn's plan is a perpetual structural deficit in the making.

In contrast, our plan recommends holding spending for these departments at 2009 levels. This is not "draconian" or "harsh" – in a

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TABLE 3: Eliminating Governor Quinn's FY 2010 Spending Increases (general funds)

Agency	FY 2009: Enacted Appropriation	FY 2010: Quinn's Recommended Appropriation	Quinn's Suggested Spending; Our Suggested Cuts
Department On Aging	\$538,536,000	\$620,282,000	\$81,746,000
Department Of Children And Family Services	\$864,986,000	\$899,308,000	\$34,322,000
Department Of Natural Resources	\$63,170,000	\$68,514,000	\$5,344,000
Department Of Healthcare And Family Services	\$7,090,360,000	\$7,734,168,000	\$643,808,000
Department Of Healthcare And Family Services Group Ins.	\$1,057,891,000	\$1,059,918,000	\$2,027,000
Comprehensive Health Insurance Plan	\$28,985,000	\$29,261,000	\$276,000
Illinois Criminal Justice Information Authority	\$3,599,000	\$3,653,000	\$54,000
State Board Of Education	\$7,453,111,000	\$7,626,527,000	\$173,416,000
Board Of Higher Education	\$10,378,000	\$13,778,000	\$3,400,000
Chicago State University	\$42,112,000	\$42,532,000	\$420,000
Eastern Illinois University	\$50,567,000	\$51,403,000	\$836,000
Governors State University	\$28,324,000	\$28,608,000	\$284,000
Northeastern Illinois University	\$43,402,000	\$43,837,000	\$435,000
Western Illinois University	\$59,920,000	\$60,893,000	\$973,000
Illinois State University	\$85,096,000	\$86,208,000	\$1,112,000
Northern Illinois University	\$107,431,000	\$109,189,000	\$1,758,000
Southern Illinois University	\$233,317,000	\$235,638,000	\$2,321,000
University Of Illinois	\$743,420,000	\$751,247,000	\$7,827,000
Illinois Community College Board	\$355,631,000	\$364,701,000	\$9,070,000
Illinois Student Assistance Commission	\$429,205,000	\$440,062,000	\$10,857,000
Illinois Mathematics And Science Academy	\$18,341,000	\$18,566,000	\$225,000
State Universities Civil Service System	\$1,273,000	\$1,279,000	\$6,000
Total			\$980,517,000

Source: Governor Quinn's 2010 Budget Book³

sinking economy, where families and businesses are holding the line on spending or cutting back, it's simple common sense.

Additional departmental spending cuts

Paring back the budgets of the other

“Governor’s Agencies” departments that did not receive a funding increase from Governor Quinn is another option for savings.

Table 4 shows the options for cutting the remaining departments’ budgets by 5 percent, 10 percent, and 15 percent. The respective

**TABLE 4: Spending Cut Options
for Governor’s Agencies (general funds)**

Agency	Governor’s FY 2010 Recommended Appropriation	Additional 5% cut	Additional 10% cut	Additional 15% cut
Department of Agriculture	\$39,124,000	\$1,956,200	\$3,912,400	\$5,868,600
Department of Central Management Services	\$75,040,000	\$3,752,000	\$7,504,000	\$11,256,000
Department of Commerce and Economic Opportunity	\$55,217,000	\$2,760,850	\$5,521,700	\$8,282,550
Department of Juvenile Justice	\$124,707,000	\$6,235,350	\$12,470,700	\$18,706,050
Department of Corrections	\$1,244,185,000	\$62,209,250	\$124,418,500	\$186,627,750
Department of Employment Security	\$13,815,000	\$690,750	\$1,381,500	\$2,072,250
Department of Human Rights	\$9,424,000	\$471,200	\$942,400	\$1,413,600
Department of Human Services	\$4,163,532,000	\$208,176,600	\$416,353,200	\$624,529,800
Department of Labor	\$6,318,000	\$315,900	\$631,800	\$947,700
Department of Military Affairs	\$17,785,000	\$889,250	\$1,778,500	\$2,667,750
Department of Public Health	\$150,296,000	\$7,514,800	\$15,029,600	\$22,544,400
Department of Revenue	\$153,766,000	\$7,688,300	\$15,376,600	\$23,064,900
Department of State Police	\$214,511,000	\$10,725,550	\$21,451,100	\$32,176,650
Department of Transportation	\$31,460,000	\$1,573,000	\$3,146,000	\$4,719,000
Department of Veterans’ Affairs	\$66,326,000	\$3,316,300	\$6,632,600	\$9,948,900
Illinois Arts Council	\$15,341,000	\$767,050	\$1,534,100	\$2,301,150
Governor’s Office of Management and Budget	\$2,660,000	\$133,000	\$266,000	\$399,000
Office of Executive Inspector General	\$6,931,000	\$346,550	\$693,100	\$1,039,650
Executive Ethics Commission	\$334,000	\$16,700	\$33,400	\$50,100
Civil Service Commission	\$418,000	\$20,900	\$41,800	\$62,700
Illinois Deaf and Hard of Hearing Commission	\$744,000	\$37,200	\$74,400	\$111,600
East St. Louis Financial Advisory Authority	\$240,000	\$12,000	\$24,000	\$36,000
Illinois Guardianship and Advocacy Commission	\$9,710,000	\$485,500	\$971,000	\$1,456,500
Human Rights Commission	\$2,243,000	\$112,150	\$224,300	\$336,450
Illinois Violence Prevention Authority	\$3,408,000	\$170,400	\$340,800	\$511,200
Procurement Policy Board	\$289,000	\$14,450	\$28,900	\$43,350
Prisoner Review Board	\$1,398,000	\$69,900	\$139,800	\$209,700
Southwestern Illinois Development Authority	\$3,309,000	\$165,450	\$330,900	\$496,350
Illinois Emergency Management Agency	\$5,076,000	\$253,800	\$507,600	\$761,400
Illinois Labor Relations Board	\$2,260,000	\$113,000	\$226,000	\$339,000
Illinois State Policy Merit Board	\$640,000	\$32,000	\$64,000	\$96,000
Upper Illinois River Valley Development Authority	\$290,000	\$14,500	\$29,000	\$43,500
Savings		\$321,039,850	\$642,079,700	\$963,119,550

Source: Governor Quinn’s 2010 Budget Book⁴

Table 4 shows the options for cutting the remaining departments’ budgets by 5 percent, 10 percent, and 15 percent. The respective savings amount to \$321 million, \$642 million, and \$963 million.

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Governor Quinn has recommended appropriating \$79.3 million from general funds for “Legislative Agencies.” An additional ten percent cut in this area would total \$7.9 million in savings.

Governor Quinn has recommended appropriating \$409.2 million from general funds for “Judicial Agencies.” An additional ten percent cut in this area would total \$40.9 million in savings.

Governor Quinn has recommended appropriating \$319.3 million from general funds for “Elected Officials and Elections.” An additional ten percent cut in this area would total \$31.9 million in savings.

Begin Medicaid delivery reform

The federal “recovery” bill requires *eligibility* for Medicaid to be maintained at July 1, 2008 levels or above. Several cost-cutting reforms can still be implemented, however, which would save the state significant money in Medicaid delivery while not affecting eligibility:

- Implement a managed care system where provider reimbursements are tied to performance and outcomes (e.g., reducing the reliance on emergency room care).
- Rebalance long-term care away from institutions and toward lower-cost community care for the elderly, disabled, and mentally ill.
- Contain pharmacy costs by expanding purchasing pools, following preferred drug lists, and keeping dispensing fees in line with national averages.
- Promote transparency and publish anonymous Medicaid claims data to identify cost savings and health outcomes.
- Request a waiver from federal mandates in order to give Illinois a greater degree

of flexibility in designing a reformed Medicaid system.

- Prepare to reduce eligibility in 2011, when federal “recovery” eligibility mandates expire.

Eliminate or reduce special state funds

Illinois has over 300 special state funds that are separate from the General Revenue Fund, yet many receive “transfers in” from the General Revenue Fund. Greater transparency on the revenue sources and spending allocations of these funds will help taxpayers better determine their continuing value. During tight budgetary times, closing these funds or at least reducing the “transfers in” from general funds could offer significant savings.

See Table 5 for a list of selected special funds that received \$647.6 million from the General Revenue Fund in 2008.

Reduce payments to localities

Before Illinois’s state income tax is increased, it makes sense to review how existing income tax revenue is utilized. It turns out that 10 percent of net state income tax receipts are distributed to local governments on a per capita basis. In 2008, Illinois transferred \$1,208,043,884 from the General Revenue Fund to localities via the Local Government Distributive Fund.⁶

Reducing the transfer of state income tax receipts to localities could help prevent a state income tax hike by making more of the existing funds available for state use. This would also encourage local governments to identify spending reductions within their own budgets.

Ultimately, the Local Government Distributive Fund is little more than a state subsidy to localities who don’t want to stay within the tax revenue rates demanded by local voters. It’s time to put an end to this “gimme more” behavior.

Address public employee pay

Governor Quinn should follow the lead

Reducing the transfer of state income tax receipts to localities could help prevent a state income tax hike by making more of the existing funds available for state use.

TABLE 5: Transfers from General Revenue Fund to Selected Special State Funds, 2008

Special State Fund	Transfer
Public Transportation Fund	\$321,322,648
Downstate Public Transportation Fund	\$86,197,524
School Infrastructure Fund	\$64,577,194
Tourism Promotion Fund	\$46,241,179
Metropolitan Exposition Auditorium and Office Building Fund	\$37,922,811
Live and Learn Fund	\$20,904,000
Partners for Conservation Fund	\$14,000,000
Presidential Library and Museum Operating Fund	\$8,250,000
Metro-East Public Transportation Fund	\$8,129,318
Comprehensive Regional Planning Fund	\$5,000,000
Digital Divide Elimination Fund	\$5,000,000
Supreme Court Historic Preservation Fund	\$5,000,000
Digital Divide Elimination Infrastructure Fund	\$4,000,000
Predatory Lending Database Program Fund	\$3,500,000
African-American HIV/AIDS Response Fund	\$3,000,000
Illinois Thoroughbred Breeders Fund	\$2,402,144
Illinois Standardbred Breeders Fund	\$1,679,981
Build Illinois Fund	\$1,665,662
Fair and Exposition Fund	\$1,661,493
Corporate Headquarters Relocation Assistance Fund	\$1,500,000
Violence Prevention Fund	\$1,400,000
I-Fly Fund	\$1,320,000
Youth Alcoholism and Substance Abuse Prevention Fund	\$1,062,900
Charitable Trust Stabilization Fund	\$1,000,000
Intercity Passenger Rail Fund	\$675,800
Municipal Economic Development Fund	\$187,118
Total	\$647,599,769

Source: Illinois Comptroller, Detailed Annual Expenditures Report, 2008⁵

Reducing the transfer of state income tax receipts to localities could help prevent a state income tax hike by making more of the existing funds available for state use.

of Delaware's Democratic Governor Jack Markell, who has proposed temporarily cutting public employee pay by 8 percent in a bid to balance his state's budget.⁷

Direct labor payroll costs make up a significant portion of government budgets. Indeed, State Comptroller Dan Hynes called personnel costs "the largest area of operations spending"⁸ in Illinois.

According to the office of the Illinois State Comptroller, Illinois appropriated \$3.89 billion on regular agency personal services and \$1.19 billion for higher education personal services in fiscal year 2007.⁹ As shown in Table 6, a ten percent reduction in total payroll costs of \$5.08 billion could save Illinois taxpayers \$508 million a year.

Beyond payroll cuts, the state could freeze annual cost-of-living-adjustments and STEP increases, implement a hiring stop, reduce overtime opportunities, and offer lower starting salaries.

Benefit reforms also offer many spending reduction possibilities. Government employees and retirees could be required to pay higher contributions toward their health care coverage. New hires could be placed in a redesigned "defined contribution" pension system, and existing employees' benefits for future service could also be calculated under this system.

While tackling public employee pay and benefits is unlikely to prove popular with public employee unions, no serious attempt to rein in Illinois's budget should ignore this critical issue.

Use transparency to consolidate and reduce costs

Using online spending transparency initiatives, Texas Comptroller Susan Combs has saved \$4.8 million and identified an additional \$3.8 million in expected costs savings. Combs is also using transparency to streamline procurement costs in her “Smart Buy” initiative, which is estimated to save at least \$28 million (8 percent of spending for certain goods and services) in its initial phase.¹¹ Illinois should be mimicking these smart moves.

TABLE 6: Potential Savings from State Payroll Reductions

FY 2007 Illinois State Government Payroll	5% reduction	10% reduction	15% reduction
\$5,086,700,000	\$254,335,000	\$508,670,000	\$763,005,000

Source: Illinois State Comptroller¹⁰

Competition can also spur government to be more cost effective. Representative Mike Connelly has introduced a bill called the Illinois Efficient Government Act (HB4161). If enacted, Connelly’s bill would transform the entire process of how state government provides and procures services – while at the same time saving millions (eventually billions) of taxpayers’ dollars.

The Illinois Efficient Government Act would establish a Council on Efficient Government (CEG) to help Illinois “right-size” state government and drive institutional reform. CEG’s mission would be to promote transparent best business practices in government to foster competition, efficiency, and innovation in service delivery to Illinois taxpayers. The CEG would function as a center of excellence in state procurement and would:

- Review whether or not goods or services provided by state agencies could be privatized to provide the same (or higher) level of service delivery while achieving cost savings or better value for the money.
- Develop a standardized, enterprise-wide process for identifying and implementing outsourcing opportunities.
- Develop rules requiring performance-

based contracting as a default requirement for state outsourcing initiatives.

- Require state agencies to develop a business case justifying any proposed outsourcing – covering everything from cost-benefit analysis to employee transition plans – prior to deciding whether or not to outsource.
- Disseminate lessons learned and best practices in competitive sourcing across state government.

• Conduct an annual or biannual inventory of all activities performed by state government, categorizing them as either inherently governmental (i.e., activities that should only be performed by government employees) or commercial (i.e., activities widely performed in the private sector) in nature.

• Require the Governor’s office, at least every two fiscal years, to subject three commercial activities undertaken by state agencies to strategic review.

• Create a uniform cost accounting model to facilitate “apples-to-apples” cost comparisons between public and private sector service provision (critical to ensure a level public-private playing field).

• Review and take action on complaints regarding inappropriate government competition with the private sector.

Pass the Economic Reform Agenda

In spring 2009, the Illinois Policy Institute introduced a package of reforms with House Republicans that sought to restore citizens’ trust in government and put the state back on the road to fiscal discipline, economic growth, job creation, and prosperity. These common-sense reforms consist of proposals that address the root causes of Illinois’s fiscal and economic crisis, including:

While tackling public employee pay and benefits is unlikely to prove popular with public employee unions, no serious attempt to rein in Illinois’s budget should ignore this critical issue.

• The Sunshine Act. In late 2007, the state Auditor General issued a report indicating that Illinois “does not have a comprehensive, consistent inventory of programs” it funds on a daily basis. This report reveals that the state government is so disorganized and inefficient that a roster of state programs does not exist. The Sunshine Act (HB 4134) creates a tool to carefully and thoughtfully remove wasteful, fraudulent, ineffective

or inefficient spending. It creates an independent commission of business leaders that make specific recommendations to consolidate or eliminate duplicative, outdated, or ineffective state programs. The General Assembly must vote up or down on the commission’s total recommendation. The Sunshine Act is modeled on a successful base closure program used by the Department of Defense in 2005.

• The Stimulus Watch Act. The Stimulus Watch Act (HJR 19) brings fiscal discipline to Illinois government, particularly in the use of any funds received as part of the recently passed federal stimulus package. This resolution restricts the governor from using any funds from the stimulus package unless a program is created and appropriated by the General Assembly. Further, any new programs launched as part of stimulus funding

must sunset when stimulus funds are no longer available, preventing excessive upward pressure on spending when future revenue sources are uncertain or unavailable.

Education reforms

Every high school dropout costs taxpayers \$221,000 in decreased tax revenue and increased welfare and incarceration costs.¹²

Charter high schools’ lower dropout rates come at no additional expense to state government – thus providing an immediate benefit to the taxpayers who fund entitlement programs and the Department of Corrections.

Other options for education spending reform include:

- Freeze and reduce the Property Tax Extension Limitation Law (PTELL) adjustment subsidy to localities.
- Freeze special education categorical grants.
- Consolidate the state’s 870 school districts to obtain administrative savings.

TABLE 7: Balancing the Budget Without Tax Hikes: Menu Options for Reducing Spending

10% across-the-board reduction to Governor Quinn’s proposed 2010 budget	\$3,066,200,000
Rollback of Governor Quinn’s 2010 spending increases for certain departments to 2009 levels	\$980,517,000
Across-the-board reduction for departments that Governor Quinn did not target for a spending increase	\$321,039,850 (5 percent)
	\$642,079,700 (10 percent)
	\$963,119,550 (15 percent)
Judicial Agencies (10 percent cut)	\$40,921,000
Elected Officials and Elections (10 percent cut)	\$31,932,100
Legislative Agencies (10 percent cut)	\$7,930,500
End Transfers to Select Special Funds from General Revenue Fund	\$647,599,769
End Subsidy of Local Governments	\$1,200,000,000
Payroll Reductions	\$254,335,000 (5 percent)
	\$508,670,000 (10 percent)
	\$763,005,000 (15 percent)

Note: The table presents various routes for finding \$3.2 billion in spending reductions. Certain options are mutually exclusive (e.g., the savings from rolling back the entire budget by 10 percent should not be added to the savings from the rollback of Governor Quinn’s 2010 spending increases in order to avoid double-counting).

Prevent future budget deficits

Illinois can best ensure that future spending doesn’t outpace natural revenue growth from existing tax rates by passing an expenditure measure.

Limiting future state budget growth to a rate

State leaders do not need to increase taxes to balance the state’s budget. Deciding to hike taxes on Illinoisans is a choice, not a necessity.

of inflation plus population growth would ensure that the government does not grow beyond taxpayers' ability to pay for it. If Illinois had enacted an expenditure limit in 2004 that limited spending growth to population plus inflation, the state could have cumulatively saved \$13.7 billion over the past six years. That's money that could have been put in a rainy day fund, applied toward the unfunded public employee pension liabilities, or even refunded to taxpayers.

Conclusion: Tax hikes are a choice, not a necessity

State leaders do not need to increase taxes to balance the state's budget. Deciding to hike taxes on Illinoisans is a choice, not a necessity.

Nor do they need to impose "doomsday" budget cuts. Our alternative "menu" approach shows that the deficit can be resolved with a variety of sensible and reasonable spending reductions.

Although Illinois's taxpayers would benefit from a significant reduction in the cost of government, elected leaders need to find only \$3.2 billion in spending cuts to avoid Governor Quinn's income tax increases.

Other options for implementing reforms that will lead to spending reductions include:

- Medicaid delivery reform (with or without eligibility changes).
- Greater charter school deployment.
- Utilization of transparency principles to identify savings.
- Implement a Council on Efficient Government to help "right-size" state government.
- Pass the Sunshine Act, which would make specific recommendations to consolidate or eliminate duplicative, outdated, or ineffective state programs.
- Approve the Stimulus Watch Act, which

would require that any new programs launched as part of federal "recovery" funding must sunset when stimulus funds are no longer available.

It doesn't take a superhero or a villain to balance the budget. What it takes is a dedicated band of leaders who courageously commit to reining in the growth of government spending.

Notes

1 "Illinois State Budget, Fiscal Year 2010," Governor Pat Quinn, March 2009, <http://budget.illinois.gov/documents/FY2010OperatingBudget.pdf>.

2 Ibid.

3 Ibid.

4 Ibid.

5 "Detailed Annual Report of Revenues and Expenditures," Illinois State Comptroller, Fiscal Year 2008, <http://www.apps.ioc.state.il.us/ioc-pdf/DetAnn08.pdf>.

6 Ibid.

7 Randall Chase, "Delaware gov's budget has pay cuts, sports betting," Associated Press, <http://finance.yahoo.com/news/Delaware-govs-budget-has-pay-afj-14693299.html>, March 19, 2009.

8 "A Closer Look at State Operations Spending," Illinois State Comptroller's Fiscal Focus Newsletter, January 2008, <http://www.apps.ioc.state.il.us/ioc-pdf/FFWeb0108.pdf>.

9 Ibid.

10 Ibid.

11 "Texas Grades State Agencies and Local Governments on Financial Transparency," Government Technology, December 5, 2008, <http://www.govtech.com/gt/568381>.

12 "Just one Illinois high school dropout costs \$221,000," Associated Press, September 24, 2008, <http://www.sj-r.com/homepage/x1464868435/Just-one-Illinois-high-school-dropout-costs-221-000>.

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Robbing Peter to Pay Paul

A closer look at public employee pay in Illinois

Peter and Paul are both human resources managers in Illinois. They have similar skill sets and have been in the workplace for the same number of years. Yet Peter makes \$55,885 a year, while Paul earns a salary of \$62,592. Why the difference? Peter works for a company in the private sector, while Paul works for the state government.

Government workers often enjoy generous compensation packages—some would say too generous. The fact of the matter is that their employer—the government—is largely immune to competitive pressures that help to set pay at the point where demand meets supply. Taxpayers (the forced funders of government) simply don't have the leverage that customers (the voluntary funders of business) do when it comes to impacting income streams, and therefore wages.

In the private sector, customers can stop buying products easily enough, but taxpayers risk jail if they don't fund what the politicians have deemed worthy of tax dollars. Add in the political clout secured by the campaign contributions of public employee unions, and the deck is stacked in favor of government employees at the expense of taxpayers.

At a time when Illinois is facing a serious budget shortfall, all areas of government

spending should be carefully reviewed for potential savings. Direct labor costs make up a significant portion of government budgets. Illinois State Comptroller Dan Hynes has even called personal services costs “the largest area of operations spending.”¹

According to the Bureau of Labor Statistics' Quarterly Census of Employment and Wages,² state workers in Illinois earned an average annual wage of \$53,925 in 2007. In comparison, private sector workers in Illinois earned an average annual wage of \$48,006 in 2007, giving average Illinois state workers a 12 percent wage differential over average private sector workers.

While Illinois Governor Pat Quinn has proposed reforming certain public employee health and retirement benefits in an attempt to control future spending, he has not suggested significant reductions to government's payrolls.

Governor Quinn should follow the lead of Delaware Governor Jack Markell (D), who has proposed temporarily cutting public employee pay by 8 percent in a bid to save \$92 million in 2010.³ If Illinois's state employee payroll was reduced by just 10 percent, the savings would top half a billion dollars. While tackling public employee pay is unlikely to prove popular with public employee unions, no serious attempt to rein in Illinois's budget should ignore this opportunity for budgetary relief.

State and Local Government Payrolls

How many government employees are in Illinois, and what are they paid? Unfortunately, the answers to these questions are not as crystal clear as they should be. Different sources report different data. A review of that data follows here.

U.S. Census Bureau's Census of Government Employment

The U.S. Census Bureau conducts a Census of Government Employment, which measures the number of state, local and federal civilian government employees and their gross payrolls.⁴

According to the 2007 Census, Illinois state and local governments

had 645,306 full-time equivalent employees on payroll. Of this, state government had 125,015 full-time equivalent employees and local government had 520,291 full-time equivalent employees.

The same census provides payroll information for the month of March 2007. During this timeframe, state and local government paid employees a total of \$2.59 billion. Of this, state government paid \$556 million and local government paid \$2.03 billion.

Multiplying the payroll data for March 2007 by twelve months to obtain annualized information, total state and local government employee payroll would have been \$31.08 billion. Of this, local governments would have paid \$24.41 billion and state governments would have paid \$6.67 billion.

Based on these annualized U.S. Census Bureau numbers, a ten percent across-the-board state and local government payroll cut would total \$3.1 billion in savings for taxpayers. If just the state payroll were cut by 10 percent, based on U.S. Census Bureau numbers, the savings would total \$667 million.

The Census of Government Employment defines "employees" to include "all persons paid for personal services performed." It counts "elementary and secondary education, higher education, police protection, fire protection, financial

administration, central staff services, judicial and legal, highways, public welfare, solid waste management, sewerage, parks and recreation,

health, hospitals, water supply, electric power, gas supply, transit, natural resources, correction, libraries, air transportation, water transport and terminals, other education, state liquor stores, social insurance administration, and housing and community development." It is important to note that the Census excludes "unpaid officials, pensioners, persons whose work is performed on a fee basis, and contractors and their employees" from their counts. As for payroll, the Census includes "all salaries, wages, fees, commissions, bonuses, or awards paid to employees." The Census collects data directly from units of government.

Illinois State Comptroller

The Illinois State Comptroller also provides information on payroll costs for state employees. In its January 2008 edition of *Fiscal Focus*, the Comptroller's Office notes

IL Government Employment & Payroll Data by Level of Government: 2007

	Full-Time Equivalent	Total Pay (March '07)	Total Pay (Annual)
State & All Local	645,306	\$2,590,289,613	\$31,083,475,356
State	125,015	\$556,183,840	\$6,674,206,080
All Local	520,291	\$2,034,105,773	\$24,409,269,276

Source: This table was user generated from the Census Bureau's Build-a-Table tool with data from the Census of Government Employment. For information about the data's sampling error, nonsampling error, and definitions, see <http://www.census.gov/govs/www/buildatable.html>. Note: Total Pay (Annual) calculations obtained by multiplying Total Pay (March 2007) number by twelve months.

A ten percent across-the-board state and local government payroll cut would total \$3.1 billion in savings for taxpayers.

that the state appropriated \$3.89 billion on personal services in fiscal year 2007, although this explicitly excludes higher education. This publication cites 72,312 state employees for 2007.⁵

When the author called the Comptroller's office to learn more about historical and aggregate employee count and payroll numbers, she was informed by a worker on the other end of the line that the state does not provide this information because "it is private"—even though some information was previously published in the Comptroller's own public magazine.

The author persisted, and another employee at the Comptroller's office suggested a Freedom of Information Act request or a drill-down search on the Comptroller's expenditure web site. Various searches on the expenditure web site did not provide the desired information (requested searches often came back with zero results and the system's coding terminology was frequently unclear).

Eventually, a helpful staff member at the Comptroller's office who had worked directly on employee payroll issues noted that the exclusion of higher education employees might help explain the variance between U.S. Census Bureau and Comptroller data.

The Comptroller's Office notes that Illinois appropriated \$1.19 billion for higher education personal services in 2007.⁶ The 2009 Budget Blue book lists a headcount of 47,147 employees for higher education in 2007.⁷ Adding these numbers to regular state employees, we arrive at an employee headcount of 119,459 and a payroll of \$5.08 billion. While the head-

count number is in the same ballpark as the U.S. Census numbers, the payroll amount is off by about \$1.6 billion. According to the Comptroller's Office, "roughly 70-80 percent of state dollars go to fund salary costs at universities," even though total state appropriations were "only 24.5 percent of total revenues received by Illinois' public universities." It is possible the U.S. Census counted the complete salaries of higher education employees in its totals, which are funded by state sources and other "locally held" sources such as tuition.

According to the Comptroller's numbers for state government operations expenditures on personal services for fiscal year 2007, total payroll costs are about \$5.08 billion. A ten percent reduction in these costs could save Illinois taxpayers \$508 million a year.

Local Government Payroll Savings

Illinois state budgeters can look beyond the state employee payroll to local government personal services to find potential savings. Reducing the pot for local government employee pay by stopping the distribution of state taxes to localities could offer significant budgetary reductions.

It is important to note that a portion of certain state taxes is re-directed to local governments. For example, Illinois distributes one-tenth of the net state income tax receipts to local governments based on population via the Local Government Distributive Fund.⁸ For fiscal year 2004, Illinois disbursed \$742 million in state income taxes to local governments, along with \$628 million in state motor fuel taxes and \$1.3 million in gaming taxes.⁹

Potential Savings from State Payroll Reductions

	2007 IL State Gov't Payroll	5% reduction	10% reduction	15% reduction
U.S. Census Data	\$6,674,206,080	\$333,710,304	\$667,420,608	\$1,001,130,912
IL Comptroller Data	\$5,086,700,000	\$254,335,000	\$508,670,000	\$763,005,000

Source: U.S. Census Bureau and Illinois Comptroller

According to the Comptroller's numbers for state government operations expenditures on personal services for fiscal year 2007, total payroll costs are about \$5.08 billion.

These are not taxes collected by the state on behalf of localities; these are state taxes that are partially given to localities.

If the payroll costs of local governments were lower, there would be less of a local demand for tax transfers from the state. The door for a state tax cut could then be opened. At the very least, the door to a state tax hike could be slammed shut.

Public vs. Private Compensation

Is it fair to cut the salaries of public employees? Do government employees earn more than private sector employees for similar work?

According to December 2008 data from the Bureau of Labor Statistics' Employer Costs for Employee Compensation survey, the average per-hour employer cost for state and local government workers was \$39.25 (\$25.87 for wages/salaries and \$13.38 for benefits). For private industry workers, the per-hour employer cost was \$27.35 (\$19.37 for wages/salaries and \$7.98 for benefits).¹⁰

Of course, it is important to compare similar positions when determining a potential wage premium, as varying skills sets affect pay. According to the Bureau of Labor Statistics' Employer Costs for Employee Compensation survey, the compensation differential favoring state and local government employees persists among two out of three major occupational groups (as defined by the Bureau of Labor Statistics).

The Bureau of Labor Statistics' Employer Costs for Employee Compensation survey does not break down its data by state, but the Bureau's Quarterly Census of Employment and Wages does. According to the Quarterly Census,¹¹ state workers in Illinois earned an average annual wage of \$53,925 in 2007. In comparison, private sector workers in Illinois earned an average annual wage of \$48,006 in 2007, giving average Illinois state workers a 12 percent wage differential over average private sector workers.

Other sources provide indication of potential public/private wage gaps.

The Illinois Central Management Services currently publishes fiscal year 2009 (July 1, 2008 to June 30, 2009) salary schedules by job title and level (ranging from Step 1c to 8),¹² and the Bureau of Labor Statistics' provides median hourly wages for all workers in Illinois (including government) from

May 2007.¹³ Based on the data and a sampling of state government positions and similar positions counting all workers, a wage gap is pronounced within jobs requiring lower-level skill sets.

See Table 5 on page 7 for a salary comparison between Illinois State government workers and all workers.

Job Security and Turnover Rates

Do government employees think they're being paid at or above market level for their work? Turnover rates can provide a good indication of relative satisfaction with compensation. Presumably, an employee who doesn't think he or she is being

If the payroll costs of local governments were lower, there would be less of a local demand for tax transfers from the state. The door for a state tax cut could then be opened.

Employer Costs Per Hour Worked: December 2008

	Total Compensation	Wages/Salaries	Benefits
State & Local Government	\$39.25	\$25.87	\$13.38
Private Industry	\$27.35	\$19.37	\$7.98

Source: Bureau of Labor Statistics

Employer Costs Per Hour Worked (By Major Occupational Group): December 2008

	Management, professional and related	Sales and office	Service
State & Local Government	\$48.19	\$26.64	\$28.49
Private Industry	\$48.62	\$21.31	\$13.40

Source: Bureau of Labor Statistics

adequately compensated will look elsewhere for a job.

Nationwide, the voluntary “quit” rate for state and local government workers was just 0.5 percent in February 2009. Compare that to the private sector “quit” rate, which was 1.7 percent.¹⁴ According to the Bureau of Labor Statistics, the publisher of this data, the quit rate “is the number of quits during the entire month as a percent of total employment.” Government workers are less likely to leave their jobs voluntarily than workers in the private sector.

How does Illinois stack up? According to data from The Pew Center on the States, fewer state employees in Illinois choose to leave their jobs than in any other state.¹⁵ The voluntary turnover rate (as a percentage of the total workforce) for classified state employees was just 1.9 percent, lower than any other state recorded in Pew’s study. For nonclassified workers, the voluntary turnover rate was just 0.1 percent. Clearly, Illinois’s government employees recognize a good deal when they see one. (According to Pew, classified employees are persons in the state government who are in the classified civil service with formal civil service protections covered by the merit system; non-classified employees are persons in the state government who are not in the classified service.)

Considering total turnover rates among classified employees (including voluntary, involuntary, retired, and layoff turnovers), Illinois had the fourth-lowest rate, at 5.5 percent. The survey defined turnover as the separation of all non-temporary employees from the Executive Branch workforce for at least some brief period of time; transfers between state agencies is not considered

turnover.

Government workers enjoy a rate of job security far beyond that of their counterparts in the private sector. In February 2009, the national layoff and discharge rate for private sector workers was 1.7 percent. State and local workers had a layoff and discharge rate of just 0.2 percent.¹⁶ State workers also benefit from the fact that their employer (the State of Illinois) is unlikely to be bought out, merged, liquidated, or shuttered any time soon.

Low job separation rates and high levels of job security are valuable premiums enjoyed by public employees, and they should be considered when compensation packages are set.

Conclusion

Information about Illinois public employees and their compensation isn’t as transparent as it should be. Illinois taxpayers deserve more information about how—and on

whom—their precious tax dollars are spent.

That being said, well-paid government employees shouldn’t be immune from

a “belt tightening” during an economic downturn. Private industry employees certainly are not. Illinois-based Caterpillar, Inc., announced in December 2008 that executive compensation would be slashed by up to 50 percent, and managers and support staff were also told to expect cuts.¹⁷ If private companies can cut wage costs to keep their organizations afloat, government should do the same to keep its budget afloat.

While many of Illinois’s state and local government employees are unionized, labor representatives can accept pay reductions

Well-paid government employees shouldn’t be immune from a “belt tightening” during an economic downturn. Private industry employees certainly are not.

**Turnover Rates for IL State Gov’t Employees
(as a percentage of total workforce)**

	Total	Voluntary	Involuntary	Retired	Layoff
Classified	5.5	1.9	2.2	1.4	0.0
Nonclassified	0.2	0.1	0.1	0.0	0.0

Source: The Pew Center on the States, “Grading the States 2008”

in a good faith effort to keep personal income tax hikes from being levied on their members. Additionally, government bargaining representatives can insist on these reductions as future contracts are negotiated.

If Illinois's state employee payroll was reduced by 10 percent, the savings could top half a billion dollars. Reducing the pot for local government employee pay by stopping the distribution of state income taxes to localities could also offer significant budgetary reductions. These savings could help erase the "need" for the income tax increases sought by Governor Quinn.

Across the country, private businesses and state and local governments are taking steps to cut payroll costs. Illinois can follow their lead and make sensible reductions. We can do better than robbing Peter to pay Paul.

Notes

1 Illinois State Comptroller, "A Closer Look at State Operations Spending," *Fiscal Focus*, January 2008, <http://www.apps.ioc.state.il.us/ioc-pdf/FFWeb0108.pdf>.

2 U.S. Department of Labor's Bureau of Labor Statistics, "Quarterly Census of Employment and Wages," <http://www.bls.gov/cew/>.

3 Randall Chase, "Delaware gov's budget has pay cuts, sports betting," *Associated Press*, <http://finance.yahoo.com/news/Delaware-govs-budget-has-pay-apf-14693299.html>, March 19, 2009.

4 U.S. Census Bureau, "Census of Government Employment," 2007, <http://www.census.gov/govs/www/buildatable07.html>.

5 Illinois State Comptroller, "A Closer Look at State Operations Spending," *Fiscal Focus*, January 2008, <http://www.apps.ioc.state.il.us/ioc-pdf/FFWeb0108.pdf>.

6 Illinois State Comptroller, "A Closer Look at State Operations Spending," *Fiscal Focus*, January 2008, <http://www.apps.ioc.state.il.us/ioc-pdf/FFWeb0108.pdf>.

pdf.

7 "Illinois State Budget, Fiscal Year 2009," <http://www.state.il.us/budget/FY%202009%20Operating%20Budget%20Book%20v2.pdf>.

8 Illinois State Comptroller, "Local Governments Lose Photoprocessing Tax Revenue," *Fiscal Focus*, July 2002, <http://www.ioc.state.il.us/FiscalFocus/article.cfm?ID=48>.

9 Illinois Department of Revenue, "Fiscal Year 2004 Payments to Local Governments," <http://www.revenue.state.il.us/Publications/LocalGovernment/2004Ptax1003.pdf>.

10 U.S. Department of Labor's Bureau of Labor Statistics, "Employer Costs for Employee Compensation," March 12, 2009, <http://www.bls.gov/news.release/ecec.nr0.htm>.

11 U.S. Department of Labor's Bureau of Labor Statistics, "Quarterly Census of Employment and Wages," <http://www.bls.gov/cew/>.

12 Illinois Central Management Services, "FY2009 Alphabetic Index/Class Specification Search," March 2, 2009, <http://work.illinois.gov/search.asp>.

13 "May 2007 State Occupational Employment and Wage Estimates Illinois," Bureau of Labor Statistics, http://www.bls.gov/oes/2007/may/oes_il.htm.

14 U.S. Department of Labor's Bureau of Labor Statistics, "Job Opening and Labor Turnover Survey," <http://www.bls.gov/jlt/>.

15 The Pew Center on the States, "Grading the States 2008," http://www.pewcenteronthestates.org/gpp_report_card.aspx.

16 U.S. Department of Labor's Bureau of Labor Statistics, "Job Opening and Labor Turnover Survey," <http://www.bls.gov/jlt/>.

17 The Associated Press, "Caterpillar slashing executive pay," December 22, 2008, <http://www.msnbc.msn.com/id/28351182/>.

If Illinois's state employee payroll was reduced by 10 percent, the savings could top half a billion dollars.

The Illinois Central Management Services currently publishes fiscal year 2009 (July 1, 2008 to June 20, 2009) salary schedules by job title and level (ranging from Step 1c to 8),¹¹ and the Bureau of Labor Statistics' provides median hourly wages for all workers in Illinois (including government) from May 2007.¹² These sources, which were the most current available at the time of publishing, were used to create Table 5.

**TABLE 5: Illinois Salary Comparison:
State Government Workers & All Workers**

State Govt: Position	State Govt Workers: Annualized Salary, Step 4	All Workers: Position	All Workers: Annualized Salary
Office Clerk	\$33,420.00	Office Clerks, General	\$24,752.00
Switchboard Operator II	\$34,344.00	Switchboard Operators, Including Answering Service	\$23,732.80
Security Guard II (Step 1C)	\$34,704.00	Security Guards	\$23,524.80
Human Resources Assistant	\$37,764.00	Human Resources Assistants, Except Payroll & Timekeeping	\$36,192.00
Building/Grounds Laborer	\$39,624.00	Landscaping & Groundskeeping Workers	\$22,692.80
Clinical Laboratory Technician II	\$41,400.00	Medical and Clinical Laboratory Technicians	\$36,836.80
Pest Control Operator	\$41,592.00	Pest Control Workers	\$25,854.40
Mental Health Specialist II	\$47,388.00	Mental Health Counselors	\$36,982.00
Executive Secretary II	\$47,388.00	Executive Secretaries and Admin. Assistants	\$40,518.40
Child Welfare Associate Specialist	\$49,872.00	Child, Family and School Social Workers	\$47,278.40
Occupational Therapist	\$54,792.00	Occupational Therapists	\$69,680.00
Civil Engineer III	\$58,740.00	Civil Engineers	\$72,363.20
Accountant Advanced	\$58,896.00	Accountants and Auditors	\$59,904.00
Registered Nurse II	\$62,040.00	Registered Nurses	\$59,904.00
Actuary II	\$78,888.00	Actuaries	\$85,259.00
Arbitrator	\$115,840.00	Arbitrators, Mediators & Conciliators	\$83,907.20

Source: Illinois Central Management Services and Bureau of Labor Statistics

2010
budget *solutions*

You Spent My Tax Dollars On What??

How silly spending in 2009 contributed to 2010's budget mess

Every day, ordinary Illinoisans balance their family budgets between necessities and luxuries. They also ask themselves the hard questions: Do I need the premium cable package, or will the basic plan suffice? Can I afford daily home delivery of a newspaper? Is my 1,000-minutes-a-month cell phone plan really necessary? Should I bring my lunch to work, or eat out?

Individuals and families make these hard choices to avoid a situation where they've spent more than they've earned. "I wants," in other words, are put aside in favor of "I needs." Too often, this isn't the case for government.

In fiscal year 2009, Illinois state government spent \$4.3 billion more than it brought in. So what did taxpayers get out that \$4.3 billion? Try \$2 million for 3-D teaching technology and \$27,800 for harness racing expenses at the DuQuoin State Fair.

Governor Pat Quinn rolls the 2009 deficit of \$4.3 billion into his calculation of an \$11.6 billion budget gap for 2010. He wants us to pay for last year's extravagances with increases in the income taxes.

Be your own judge. On page 2 of this

ILLINOIS POLICY
INSTITUTE



report, we've listed a wide variety of General Revenue Fund expenses from 2009, including an \$920,000 Aerospace Education Initiative and a \$750,000 "Chicagoland Memory Bridge" project. If politicians can't even get rid of these blatant examples of waste, how can they responsibly handle the government's bigger expenditures? Is wasteful spending from last year worth a hike in your income taxes now?

Conclusion

Deficits don't appear out of nowhere. They stem from the irresponsible habit of spending more than you have. Unfortunately, the General Assembly fully embraced this bad habit in 2009—in more ways than one—and left taxpayers with a \$4.3 billion deficit.

The spending listed on page 2 is merely a small part of a destructive, larger pattern. We need to remember that the \$11.6 billion deficit we're facing today came from somewhere, and that somewhere includes the \$33.9 million spent in 2009 on the twenty-two programs listed in Table 1.

For much of this questionable spending, it's too late for taxpayers to recoup their losses. The government has written the check and the money has been spent. We can, however, stop future wasteful expenditures from happening by insisting that the governor and the General Assembly focus less on the "I wants" as they craft the 2010 budget.

**TABLE I: Examples of Illinois State Government
Wasteful Spending Projects in FY 2009**

Name of Item	FY 2009 General Revenue Fund Appropriations	Description
Grow Your Own Teacher	\$3,000,000	The Grow Your Own Teachers Act was passed in 2005 as a way to convert parents, professionals, and community leaders into teachers. ¹
Class Size Reduction Pilot Project	\$8,000,000	The Class Size Reduction Pilot Project was enacted in 2006 to encourage schools to hire more teachers and limit classrooms to 20 students. ²
Aerospace Education Initiative	\$920,000	This program was designed to bring space education into the classroom and use “21st century technology.”
Healthy Kids/Healthy Minds Program	\$4,000,000	This program incorporates healthy food habits into education. Those are some expensive habits!
Adler Planetarium and Museum of Science and Industry	\$400,000	The Illinois State Board of Education gave money to both institutions for educational programs.
Principal Mentoring Program	\$3,100,000	A mentoring program for new principals to learn from experienced ones. High school principals across Illinois make an average of \$100,000 a year—one would think job training wouldn’t cost an extra \$3 million.
Classroom Cubed	\$2,000,000	An education program using 3-D technology for teaching.
Hispanic Center of Excellence at the University of Illinois-Chicago ³	\$800,000	A center designed to increase the number of Latino students at UIC Medical School.
Governor’s State University	\$1,300,000	In order to run the International Trade Center, Institute for Urban Education, and the Center for Excellence in Health Education.
Grant to Les Turner ALS Foundation ⁴	\$100,000	Started in 1977, Les Turner ALS Foundation has become the “nation’s largest independent ALS organizations” and “has raised \$33 million to fight Lou Gehrig’s disease.” ⁵
Grant to Bridget Hartigan Education and Awareness Campaign ⁶	\$100,000	Hon. Neil Hartigan – who formerly held positions of Deputy Chicago Mayor, Illinois Attorney General ⁷ , and Illinois Lieutenant Governor, started this campaign in honor of his daughter.
Grants to the University of Chicago	\$2,500,000	A taxpayer-funded grant for the Transplant Section for Juvenile Diabetes research. ⁸ The University’s current endowment, meanwhile, is over \$6 billion.
Methamphetamine awareness ⁹	\$1,500,000	Grants paid to methamphetamine “awareness” programs.
Chicagoland Memory Bridge Initiative	\$750,000	A program aimed at teaching junior and senior high school students about Alzheimer’s disease. ¹⁰
DuQuoin State Fair Racing	\$27,800	For harness racing expenses at the DuQuoin State Fair.

Name of Item	FY 2009 General Revenue Fund Appropriations	Description
Illinois State Fair Racing	\$129,900	For Grand Circuit Horse Racing at the Illinois State Fair.
Livestock Awards	\$151,000	For awards given to livestock breeders at the Illinois State Fair.
Lincoln Bicentennial	\$500,000	For expenses related to the Lincoln Bicentennial celebration.
Illinois Wine and Grape Industry	\$232,800	Grants and expenses to develop the Illinois Wine and Grape Industry.
Urban Fishing Program Grant	\$262,500	In order to provide fishing and resources to the Chicago Park District.
National Corn-to-Ethanol Research Center	\$4,000,000	For expenses, expansion, research, and maintenance of the center at Southern Illinois University-Edwardsville.
Vault Toilets Grants	\$137,897	For the construction of “vault toilets”—high-end porta-potties—at seven state parks.
TOTAL SPENDING	\$33,911,897	

Notes

1. *Public Act 94-979, Section 5, <http://www.ilga.gov/legislation/publicacts/94/PDF/094-0979.pdf>.*
2. *Public Act 95-0734, Article 7 Section 15, PDF p. 418*
3. *Public Act 95-0734, Article 15, Section 20, PDF p. 215. <http://www.ilga.gov/legislation/publicacts/95/PDF/095-0734.pdf>.*
4. *Public Act 93-0036, Article 33, Section 45, PDF p. 259.*
5. *“Les Turner ALS Foundation - About Us.” Les Turner ALS Foundation- Fighting Lou Gehrig’s disease. 18 Mar. 2009 <http://www.lesturnerals.org/about.htm>.*
6. *Public Act 95-0348, Article 30, Section 45, PDF p.526*
7. *Jim McClure, “Chicago’s Irish Eyes on the World: Neil Hartigan,” Irish American News, February 2007, p. 36, http://www.irishamericannews.com/PDF/ian_0207.pdf.*
8. *Public Act 95-0348, Article 33, Section 50, PDF pp. 528-30.*
9. *Public Act 95-0734, Article 12, Section 110, PDF.*
10. *Public Act 95-0734, Article 12 Section 280, PDF p. 192.*



Doing Well By Doing Good

Cost-cutting reforms for Illinois

Budgeting and ethics problems continue to compound in Illinois. The state's budget deficit tops \$9 billion, spending continues to surge, and there is little to no transparency as to where—and to whom—tax dollars are going. This must be checked and stopped.

Statewide transparency and a Council on Efficient Government (CEG), as outlined below, would assist Illinois government in saving a substantial amount of money and streamlining government processes, while at the same time holding elected officials to a higher standard of accountability. These are simple, nonpartisan cost-cutting tools. Establishing transparency and creating a CEG would benefit all of Illinois – taxpayers, families, businesses and government – and provide critical tools for restoring responsible budget management, procurement and honest accounting.

Cost Cutter Number One: Transparency

Taxpayers deserve to know how government spends their money, and transparency gives them that chance. It serves as an x-ray machine, allowing people to look into the details of the budget books and understand where their tax dollars go – and to whom.



On a very basic level, transparency entails listing all government expenditures online in an easily searchable database. Just as you can open your personal bank account online and look up your spending activity, the database would provide the details of every tax dollar spent. The site would provide a complete, itemized, and clear description of all expenditures, including but not limited to all contracts, vendors, and grants. All expenditures would have a detailed account of the payment's purpose and who authorized the payment.

While transparency might require modest spending to implement, it will help expose and eliminate wasteful government spending; save the state money in the long run by reducing corruption; and foster a more efficient and accountable government. In addition, transparency generates competition among contractors, which allows the state to get the best cost and value for a service.

Cost Saving Example: Texas

The Texas transparency website “Where the Money Goes” (<http://www.window.state.tx.us/comptrol/expendlist/cashdrill.php>) has saved the state millions by eliminating wasteful and duplicative programs. Using information from the transparency website, Texas's Comptroller of Public Accounts saved over \$2.3 million, including:

\$130,000 in printing charges by publishing documents online;

\$250,000 in printing charges by eliminating duplicated printing in multiple agencies;

\$457,000 on eliminated information technology contracts;

\$100,000 on microfilm no longer needed; and

\$73,000 from combining printer and toner contracts.¹

On top of its transparency website, Texas has established “Texas Smart Buy,” an online ordering system where government employees can find the best deals and comparative prices for products and services. According to a December 3, 2008 press release, the Comptroller expects to save at least \$28 million in Phase One of Texas Smart Buy.² The spending categories examined included:

Overnight/express mail: Texas saved 36 percent (\$3.8 million) and awarded a substantial portion of the contract to a Texas-based vendor.

Outgoing mail machines: Texas saved 20 percent (\$700,000) by negotiating a new contract with a long-time vendor.

Asphalt: When the Texas Department of Transportation needed asphalt for road projects, the state used to solicit hundreds of bids per year. Now, it will finalize a new term contract with about 100 vendors statewide that the Department of Transportation can use at any time. Texas expects to avoid \$9 million in costs over the year by negotiating and locking in prices.

Fleet: The state expects to save \$5.7 million on fleet vehicles through contract negotiations. Also, for the first time, the state will look beyond the sticker price

to consider the cost of fueling vehicles for 100,000 miles and other operating expenses.

By posting everything online, basic transparency also gets rid of the unnecessary steps involved with the FOIA (Freedom of Information Act) process, which requires lengthy inquiries and paperwork, and lets people go right to the source. This makes life simpler for all parties involved – including the government. With transparency, citizens don’t need to “pay government agencies for labor and research time for public records...[and] government employees don’t have to take time away from providing state services in order to comply with public records requests.”³

Cost Cutter Number Two: Efficiency Commissions, Outsourcing, and Competitive Bidding⁴

At its most basic level, competitive outsourcing involves looking at everything government agencies do and determining whether private firms could do the same things more efficiently and effectively. To foster competitive service delivery, a sound process is essential to ensure a transparent, accountable, ethical, performance-based and competitive environment. To cut costs, Illinois could:

Establish a centralized independent commission with a standardized process for identifying services to outsource. Create an inventory of potential privatization projects that would be available to public through electronic means.

Offer a bidding process completed directly online, like eBay, that is open to the public.

Contract with private business if it costs

By posting everything online, basic transparency also gets rid of the unnecessary steps involved with the FOIA (Freedom of Information Act) process, which requires lengthy inquiries and paperwork, and lets people go right to the source.

less and delivers better quality.

Cost Saving Example: Florida

During former Florida Gov. Jeb Bush's term (1999-2007), Florida engaged in over 138 privatization or managed competition initiatives saving taxpayers over \$550 million in aggregate. When many other states were raising taxes, these initiatives helped Florida to shed almost \$20 billion in taxes during Gov. Bush's term. During the same time period, the number of authorized positions in all of Florida state government fell by 3,700, which included positions in the courts, Lottery, the National Guard and elected or appointed officials. Last year alone, the state's Council on Efficient Government (CEG) reviewed a total of 21 business cases valued at more than \$94 million, identifying more than \$29 million in potential savings to the state.

Florida's privatization initiatives have ranged over an array of services, including highway maintenance (\$83.7 million in savings alone), core enterprise IT infrastructure, vehicle fleet management, Medicaid billing, toll collections, online professional licensing, state psychiatric hospitals, prison food service, and maintenance in state parks and custodial services, among many. The possibilities for privatizing are endless, and privatizing during Bush's tenure gave Florida the opportunity to increase spending on core programs like education, public safety, and health care without a state income tax and without raising other taxes—in fact, Bush lowered them. Privatizing services made that possible.

By tirelessly challenging state entities to identify and focus on core functions, Jeb Bush brought fiscal solvency to Florida, lowered taxes, and rooted out wasteful, non-essential government functions. As a result of embracing competition and the

free market, Bush established a smaller and more efficient state government. The same could happen in Illinois.

An Efficiency Commission would save Illinois a substantial amount of money, create jobs in the private sector, and stimulate the economy. Not only would competitive outsourcing help Illinois maintain a more balanced budget, it would also provide transparency for its citizens, serve as a mechanism of accountability, and spur job growth and the economy.

Conclusion

Implementing both statewide spending transparency and a government efficiency board would establish a win-win situation for government, taxpayers, families and businesses—and it would also save precious state resources. These measures are crucial in getting Illinois onto a successful path of recovery, savings, and prosperity.

Transparency would help bring more public understanding and clarity into the government's budget process, while also making government more accountable to its citizens. Illinois needs sunlight. As a first step to cleaning up state government, restoring some faith in elected officials, and showing families and taxpayers how the government uses their tax dollars, transparency would shed light on a characteristically opaque budget process. Taxpayers have every right to know how government spends their money, and even more so in the current atmosphere of corruption, wasteful spending, and increasing taxes.

A Council on Efficient Government would provide yet another tool to foster transparency, accountability and efficiency into the government process. At its core, Illinois's CEG would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing

During former Florida Gov. Jeb Bush's term (1999-2007), Florida engaged in over 138 privatization or managed competition initiatives saving taxpayers over \$550 million in aggregate.

government through competition and privatization. It would drive institutional reform and promote transparent best business practices in government. In so doing, the CEG would spur innovation in the way state agencies deliver services to Illinois taxpayers.

Other states have experienced enormous success—and saved significant money—by establishing transparency standards and efficiency boards. Illinois desperately needs political reform, and these are two common-sense, practical steps that would generate bipartisan support. Sometimes, you can do well by doing good, generating financial value while offering significant reform. Illinois political leaders should take the opportunity to do so.

Notes

1 *Sutherland Institute, Why Transparency?* February 2008

2 <http://www.window.state.tx.us/news2008/081203-transparency.html>

3 *Amy Oliver, Independence Institute, Transparency Doesn't Cost; It Saves.* December 2008.

4 *Kate Campaigne & Leonard Gilroy, Illinois Policy Institute, You Better Shop Around! Council on efficient government would bring common-sense budgeting to state.* March 2009.

At its core, Illinois's CEG would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing government through competition and privatization.

Government Goes On A Diet

Designing a sensible expenditure limit for Illinois

Government has become a glutton. In Illinois, a voracious appetite for more spending has led the state budget to balloon from \$24.7 billion in 2004 to \$32.2 billion in 2009 – an increase of nearly 30 percent over just five years. It's time to put government on a diet. A sensible expenditure limit would ensure that state spending doesn't grow beyond taxpayers' ability to pay for it.

How would a diet program for Illinois state government work? Essentially, it would limit state spending to last year's budget multiplied by the previous year's combined percentage rate of inflation and population growth.

$$\text{Budget Growth} = \text{General Revenue Fund Base Budget} \times (\text{Annual Percentage Rate of Inflation} + \text{Annual Percentage Rate of Population Growth})$$

It makes sense that a budget should be adjusted on the changing cost of goods and services

(inflation) and the number of people it serves (population growth). To see the efficacy of this plan, consider a situation where an expenditure limit had been established for Illinois in fiscal year 2004.

The first step would be to determine the budget growth factor for each year, as determined by inflation + population growth.

TABLE 1: Budget Adjustment Factor: Inflation + Population Growth

Fiscal Year	Inflation Rate % (CPI Midwest Region)	Illinois Annual Population Growth Rate %	Inflation Rate + Population Growth %
2004	2.4	0.4	2.8
2005	3.2	0.3	3.5
2006	2.4	0.4	2.8
2007	2.7	0.5	3.2
2008	3.7	0.6	4.3
2009	-0.4*	0.6**	0.2

* Inflation rate for 2009 through March.
**Population figures not yet available for 2009; the 2008 rate is extended into 2009.

Source: Bureau of Labor Statistics Inflation Estimates, CPI Midwest Region and U.S. Census Bureau Population Estimates²

TABLE 2: Budget Savings from Establishing a Spending Limit in 2004 (\$ in millions)

Fiscal Year	% Budget Adjustment Factor	General Funds Budget, Actual	General Funds Budget, with Limit	Savings Between Actual Budget and Limited Budget
2004	2.8	\$24,723	\$24,723	0
2005	3.5	\$26,221	\$25,415	\$806
2006	2.8	\$27,162	\$26,305	\$857
2007	3.2	\$28,472	\$27,041	\$1,431
2008	4.3	\$30,355	\$27,907	\$2,448
2009	0.2	\$32,246	\$29,107	\$3,139
2010	N/A	\$34,261	\$29,165	\$5,096
Total Savings				\$13,778

Source: Illinois State Budget Book³

Next, the budget adjustment factor would be applied to the base budget, which was \$24.7 billion in fiscal year 2004. Future growth would be calculated by multiplying this base number by each year's budget adjustment factor percentage.

If Illinois had enacted an expenditure limit in 2004 that limited spending growth to population plus inflation, the state could have cumulatively saved \$13.7 billion over the past six years. That's money that could have been put in a rainy day fund, applied toward the unfunded public employee pension liabilities, or even refunded to taxpayers.

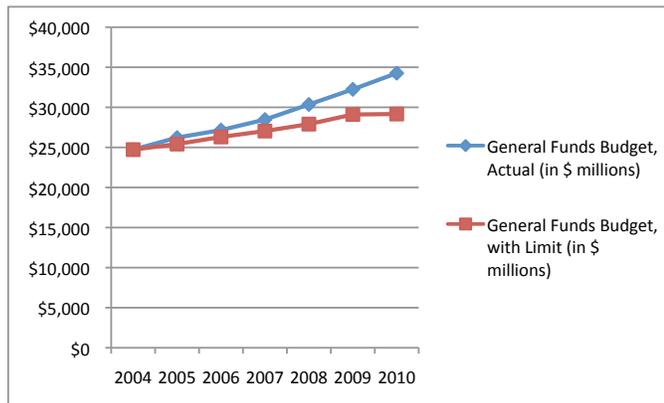
Budget Savings from Establishing a Spending Limit in 2004

An expenditure limit could have helped to prevent the \$11.606 billion budget deficit the

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An expenditure limit is no starvation diet. Instead, it allows government to grow at a more reasonable and predictable rate.

state faces today. If Illinois had adopted an expenditure limit in 2004, the budget for fiscal year 2010 would be \$29.1 billion. Given that the state is expected to bring in \$26.9 billion in revenue in 2010, the “diet” budget of \$29.1 billion is much more in tune with reality than the actual 2010 base budget of \$34.2 billion. Illinois has a good opportunity to prevent future runaway spending growth by immediately passing an expenditure limit based on inflation and population growth.



An expenditure limit is no starvation diet. Instead, it allows government to grow at a more reasonable and predictable rate. Dieticians and budgeters agree: “moderation is key.”

Notes

1 Bureau of Labor Statistics, “BLS Statistics on Inflation and Prices,” <http://www.bls.gov/bls/inflation.htm>.

2 U.S. Census Bureau, “Population Estimates,” <http://www.census.gov/popest/estimates.html>.

3 Illinois Office of Management and Budget, “State Budget Book, Fiscal Years 2004 to 2010,” <http://www.state.il.us/budget/>.